Supreme Court, U.S.
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No. 09- 091128

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IN THE

Supreme Court of the United States

DANIEL J. SEGAL, on behalf of himself, his minor children and all others similarly situated,
Petitioner,

v.

FIFTH THIRD BANK, N.A., *et al.*,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

PETITION FOR A WRIT OF CERTIORARI

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March 16, 2010

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QUESTION PRESENTED FOR REVIEW

Did the Sixth Circuit err in holding that, in conflict with other circuits, a class action alleging traditional state-law breach of fiduciary duty and contract claims that are not premised on any misrepresentation, omission, or other deceptive conduct that could violate the federal securities laws or induce the purchase, sale, or retention of a security, is precluded by the Securities Litigation Uniform Standards Act of 1998 ("SLUSA"), 15 U.S.C. §78bb(f)(1), if any conduct incidental to those claims involved a transaction in a security?

RULE 14.1(b) STATEMENT

Petitioner, who was the plaintiff-appellant below, is Daniel J. Segal, on behalf of himself, his minor children, Alex J. Segal and Graham H. Segal, and all others similarly situated.

Petitioner does not have a parent or subsidiary company.

The Respondents, who were the defendants/appellees below, are Fifth Third Bank, N.A. (the "Bank") and its corporate parent, Fifth Third Bancorp.

The putative classes were defined as follows:

(1) The Beneficiary Class consisting of all beneficiaries of trust, estate, or other fiduciary accounts for which the Bank or any of its predecessors acted as a trustee, executor, or other form of corporate fiduciary at any time from March 1, 2001 to the present.

(2) The Proprietary Funds Class consisting of all Beneficiary Class members whose trust, estate, or other fiduciary accounts, for which the Bank or any of its predecessors acted as a trustee, had, directly or indirectly, Proprietary Fund assets allocated to any such account at any time during the Class Period.

TABLE OF CONTENTS

QUESTION PRESENTED FOR REVIEW i

RULE 14.1(b) STATEMENT ii

TABLE OF AUTHORITIES v

OPINIONS BELOW 1

JURISDICTION 1

STATUTORY PROVISIONS INVOLVED 1

INTRODUCTION 2

STATEMENT OF THE CASE 6

Nature of Action; Proceedings and Disposition in the District Court 6

The Sixth Circuit's Decision 8

REASONS FOR GRANTING THE PETITION 11

I. Background of SLUSA and *Dabit* 12

A. Congress Intended SLUSA to Preclude Avoidance of the PSLRA's Requirements in Federal Securities Fraud Actions 12

B. The Narrow Holding of *Dabit* 15

II. The Sixth Circuit Decision Improperly Expanded the Narrow Holding of *Dabit* 16

III. The Sixth Circuit Decision Is Contrary to the Decisions of Other Circuits 22

A. The Sixth Circuit Decision Is Inconsistent with Circuits that Require a Causal Connection Between the Fraud and the Securities Transaction 22

B. The Sixth Circuit Decision Is in Direct Conflict with Circuits that Allow Plaintiffs to Plead Around SLUSA..... 27

C. The Sixth Circuit's Dismissal of the Entire Action Contradicts Other Circuits 31

IV. The Sixth Circuit Decision Eliminates a Historically State Law Remedy 34

CONCLUSION..... 37

APPENDIX A:
Opinion of the United States Court of Appeals for the Sixth Circuit, September 17, 2009..... 1a

APPENDIX B:
Opinion of the United States District Court for the Southern District of Ohio, March 25, 2008.....12a

APPENDIX C:
Order of the United States Court of Appeals for the Sixth Circuit Denying Petition for Rehearing and Rehearing *En Banc*, December 16, 2009.....26a

TABLE OF AUTHORITIES

CASES

Anderson v. Merrill Lynch Pierce Fenner & Smith, Inc., 521 F.3d 1278 (10th Cir. 2008)..... 27

Basic Inc. v. Levinson, 485 U.S. 224 (1988)..... 24

Bates v. Dow Agroscience LLC, 544 U.S. 431 (2005) 19, 35

Beckett v. Mellon Investor Servs., LLC, No. 06-36044, 2009 U.S. App. LEXIS 10335 (9th Cir. May 14, 2009)..... 28, 33

Behlen v. Merrill Lynch, 311 F.3d 1087 (11th Cir. 2002)..... 30

Blue Chip Stamps v. Manor Drug Stores, 421 U.S. 723 (1975)..... 15

Caterpillar, Inc. v. Williams, 482 U.S. 386 (1987)..... 27

Dabit v. Merrill Lynch, Pierce, Fenner & Smith, Inc., 395 F.3d 25 (2d Cir. 2005)..... 15, 18

Deposit Guar. Nat'l Bank v. Roper, 445 U.S. 326 (1980) 22

Dura Pharms., Inc. v. Broudo, 544 U.S. 336 (2005) 12

In re Enron Corp. Sec., Derivative & ERISA Litig., 535 F.3d 325 (5th Cir. 2008)..... 28

Ernst & Ernst v. Hochfelder, 425 U.S. 185 (1976)..... 24

Gavin v. AT&T Corp., 464 F.3d 634
(7th Cir. 2006) 22, 23, 24, 25, 36

Gray v. Seaboard Sec., Inc., No. 03-7184,
2005 U.S. App. LEXIS 4098
(2d Cir. Mar. 9, 2005) 13, 14, 32

Hunt v. Robinson, 852 F.2d 786 (4th Cir. 1988)..... 34, 35

J&R Mktg., SEP v. GMC, 519 F.3d 552
(6th Cir. 2008) 14

Kircher v. Putnam Funds Trust, 403 F.3d 478
(7th Cir. 2005) 15

LaSala v. Bordier et Cie, 519 F.3d 121
(3d Cir. 2008) 11, 25, 28, 29, 32

In re Lord Abbett Mutual Funds Fee Litig.,
553 F.3d 248 (3rd Cir. 2009) 31, 32

Marine Bank v. Weaver, 455 U.S. 551 (1982)..... 20

Merrill Lynch, Pierce, Fenner & Smith v. Dabit,
547 U.S. 71 (2006) ..... *passim*

U.S. Mortgage, Inc. v. Saxton, 494 F.3d 833
(9th Cir. 2007) 27, 29, 30

O'Brien v. Continental Illinois Nat. Bank & Trust,
593 F.2d 54 (7th Cir. 1979) 34, 35, 36

PR Diamonds, Inc. v. Chandler, 364 F.3d 671 (6th Cir. 2004) 18

Proctor v. Vishay Intertechnology, Inc., 584 F.3d 1208 (9th Cir. 2009) 25, 26, 32, 33

Ring v. AXA Fin., Inc., 483 F.3d 95 (2d Cir. 2007) 25

Roddy v. Grand Trunk W. R.R., 395 F.3d 318 (6th Cir. 2005) 27, 28

Rowinski v. Salomon Smith Barney, Inc., 398 F.3d 294 (3d Cir. 2005) 11, 28, 29

SEC v. Zandford, 535 U.S. 813 (2002) 20

Santa Fe Indus., Inc. v. Green, 430 U.S. 462 (1977) 20, 21, 22, 34

Sofonia v. Principal Life Ins. Co., 465 F.3d 873 (8th Cir. 2006) 23

Stoneridge Inv. Partners, LLC v. Scientific-Atlanta, Inc., 552 U.S. 148 (2008).....14, 20, 23

STATUTES AND RULES

28 U.S.C. §1254(1) 1

Private Securities Litigation Reform Act of 1995, 15 U.S.C. §78u-4 *et seq*..... *passim*

Securities Exchange Act of 1934, §10(b), 15 U.S.C. §78j(b) ..... *passim*

Securities and Exchange Commission Rule 10b-5, 17 C.F.R. 240.10b-5(b) ..... *passim*

Securities Litigation Uniform Standards Act of 1998, 15 U.S.C. §78bb(f)(1) ..... *passim*

OPINIONS BELOW

The opinion of the Court of Appeals is reported at 581 F.3d 305 (6th Cir. 2009) and reprinted in the Appendix. (App. 1a-11a). The opinion of the district court is not reported. (App. 12a-25a). The order denying Petitioner's motion for rehearing and rehearing *en banc* is not reported. (App. 26a).

JURISDICTION

The judgment of the Court of Appeals was entered on September 17, 2009. The order denying Petitioner's motion for rehearing and rehearing *en banc* was entered on December 16, 2009. The jurisdiction of this Court rests on 28 U.S.C. §1254(1).

STATUTORY PROVISIONS INVOLVED

The question presented by this petition involves the Securities Litigation Uniform Standards Act of 1998, 15 U.S.C. §78bb(f)(1) ("SLUSA"), which provides in relevant part:

> 1) Class action limitations. No covered class action based upon the statutory or common law of any State or subdivision thereof may be maintained in any State or Federal court by any private party alleging
>
> (A) a misrepresentation or omission of a material fact in connection with the purchase or sale of a covered security; or
>
> (B) that the defendant used or employed any manipulative or deceptive device or contrivance in connection with the purchase or sale of a covered security.

INTRODUCTION

This case presents an exceptionally important and recurring question of the preclusive scope of SLUSA under the Court's decision in *Merrill Lynch, Pierce, Fenner & Smith v. Dabit*, 547 U.S. 71 (2006). Since *Dabit*, courts of appeals have inconsistently interpreted the scope of the preclusive effect of SLUSA on traditional state law claims, leading to vastly different outcomes on similar sets of facts. The Sixth Circuit departed from other circuits in expanding *Dabit's* narrow preclusion of "'certain State private securities class action lawsuits alleging fraud from being used to frustrate the objectives' of the [Private Securities Litigation Reform Act of 1995, 15 U.S.C. §78u-4 *et seq.* ("PSLRA")]," 547 U.S. at 86, to preclusion of all "state-law ***securities-related*** claims," 581 F.3d at 308 (App. 2a) (emphasis added). Based on the Sixth Circuit's overbroad interpretation of SLUSA and *Dabit*, virtually every state law claim for breach of fiduciary duty or breach of contract can be re-cast by a defendant into a claim that arguably sounds in fraud and thus be precluded by SLUSA if, no matter how collateral to the cause of action or the defendant's conduct, it somehow touched upon a securities transaction. This cannot be harmonized with SLUSA's language or its congressional purpose.

Dabit resolved the narrow question of whether SLUSA precluded state-law claims brought by holders of securities, as well as those of purchasers and sellers, where the underlying conduct of the defendants would otherwise constitute a traditional federal securities law claim. While other circuits have correctly recognized *Dabit's* limited holding, the

Sixth Circuit, premised on this Court's comment in *Dabit* that "Congress envisioned a broad construction" of SLUSA, *Dabit*, 547 U.S. at 86, misread *Dabit*, ignored Congress' intent, and extended SLUSA past its statutory breaking point. In so doing, the Sixth Circuit departed from numerous other circuits which have read SLUSA and *Dabit* to preclude disguised federal securities claims, but not traditional state law causes of action that lack any of the essential elements of a federal securities fraud claim or fall outside the remedial purposes of the federal securities laws. This case is thus an appropriate vehicle for the Court not only to resolve this conflict between the circuits, but also, more importantly, to provide guidance on the proper application of SLUSA to a broad universe of potential claims.

Congress enacted SLUSA to close a perceived "loophole" in the PSLRA that allowed plaintiffs to circumvent the PSLRA's heightened pleading requirements by bringing state law claims, that were actually disguised securities fraud claims, in state court. *See Dabit*, 547 U.S. at 82, 87. SLUSA's narrow purpose is "[t]o stem th[e] 'shif[t] from Federal to State courts' and 'prevent certain State private securities class action lawsuits alleging fraud from being used to frustrate the objectives of' the [PSLRA]." *Id.* at 82 (citation omitted). In *Dabit*, the only issue was whether a person induced to continue holding a security based on alleged conduct that would otherwise indisputably violate §10(b) of the Securities Exchange Act of 1934, 15 U.S.C. §78j(b) ("§10(b)"), met the "in connection with" requirement

of SLUSA. *Dabit*, 547 U.S. at 85. The Court resolved this narrow issue by holding that "[t]he requisite showing . . . is 'deception 'in connection with the purchase or sale of any security,' not deception of an identifiable purchaser or seller.'" *Id.*

Since *Dabit*, several circuits have acknowledged that *Dabit* broadened SLUSA's preclusive effect to those who were induced to continue holding a security in reliance on misinformation. The Sixth Circuit, however, read *Dabit* as expanding the preclusive effect of SLUSA to virtually any claim for breach of a common law or contractual duty where, no matter how attenuated, a security is somehow involved. Left undisturbed, this decision will have the wide-ranging, exceptionally devastating consequence of eliminating any class-wide recourse for, among many others, trust and estate beneficiaries against trustees and other similar fiduciaries for breaches of trust and contract for non-fraudulent mismanagement of fiduciary funds, thereby closing the courthouse doors to small claimants for whom the class action device provides the only practical means to vindicate their rights. Nothing in the plain language or legislative history of SLUSA or in *Dabit* supports such a result.

Based on inconsistent readings of SLUSA and *Dabit*, the circuits have also split on whether SLUSA applies to claims that are not dependent on misrepresentations, deceptive conduct, or do not otherwise implicate the elements of a traditional federal securities law claim. The Sixth Circuit held that a plaintiff cannot avoid SLUSA preclusion if the complaint alleges, expressly or impliedly, any type of

deception, whether or not it is relevant to the actual causes of action asserted, and a subsequent securities transaction, whether or not the deception and the securities transaction had any connection to one another. In contrast, the Second, Third, Fifth, Seventh, and Ninth Circuits have properly determined that SLUSA does not preclude state law class action claims where alleged misrepresentations are simply background details and where the plaintiff was not induced to any action (or, as in *Dabit*, inaction) by the misrepresentations.

There is also widespread inconsistency among the circuits as to whether SLUSA preclusion applies on a claim-by-claim basis, or to the action as a whole. While the Second, Third, and Ninth Circuits appropriately apply SLUSA narrowly and allow unaffected claims to survive, the Sixth Circuit interprets SLUSA preclusion broadly and reads the statute as precluding the entire action even if some claims do not fall, standing alone, within SLUSA's ambit.

Due to this ever-widening split among the circuits on these fundamental issues regarding SLUSA's preclusive scope on traditional state law claims based, in large part, on variant readings of *Dabit*, the Court needs to intervene in order to protect Congress' express goal with SLUSA of applying uniform standards to deceptions in connection with transactions in securities.

STATEMENT OF THE CASE

Nature of Action; Proceedings and Disposition in the District Court

On October 19, 2007, Petitioner Daniel J. Segal filed the Amended Class Action Complaint ("Complaint") on his own behalf, and on behalf of his minor children and two putative Classes. The Complaint alleges state law claims against Respondents, Fifth Third Bank, N.A. (the "Bank") and the Bank's corporate parent, Fifth Third Bancorp, for breach of fiduciary duty for their failure to fulfill their obligations as trustee; breach of contract for their failure to provide the services they contracted to provide; and unjust enrichment for receiving payments for services they did not provide.

Specifically, the Complaint alleges that, under the common law and by contract, Respondents were required to provide individualized asset management and allocation services based on the needs of each trust and that Respondents charged trustees fees for these purported services. Further, the Complaint alleges that in breach of those fiduciary and contractual duties, Respondents did not provide the requisite services, but instead arbitrarily placed trust assets in their own proprietary mutual funds and thereby received fees and expenses for administration and management of the funds over and above the trustees' fees. Additionally, the Complaint alleges that when the fiduciary accounts were subject to estate, trust, or other tax obligations, Respondents segregated excessive amounts of trust funds to pay those near-term tax liabilities, usually by allocating the funds to low-yielding vehicles.

Thus, Respondents were alleged to have misallocated — and thereby mismanaged — the cash in the trusts.

Importantly, the Complaint does not allege that Respondents engaged in any of this conduct deceptively, or even in secret; rather, the trust beneficiaries regularly received reports showing where the trust assets were placed. However, as a trust beneficiary, Petitioner had no power or control over the allocation or disposition of his trust assets. Only Respondents, subject to their fiduciary and contractual obligations, had that authority. Therefore, the claims in the Complaint sound in contract and fiduciary mismanagement, not in fraud, and the Complaint does not — and could not — allege a federal securities law violation. Likewise, the causes of action are not based on any misrepresentation or failure to disclose material facts that induced Petitioner to take or not take any action in connection with the use of the trusts' assets. Instead, the gravamen of the Complaint is that Respondents failed to provide certain required services as trustee; therefore, the relief sought by Petitioner is recompense from Respondents for their failures to provide those services.

On November 30, 2007, Respondents filed their motion to dismiss the Complaint. On March 25, 2008, the District Court issued an order, without hearing oral argument, dismissing the class claims with prejudice based on SLUSA preclusion. The District Court also dismissed Petitioner's individual claims without prejudice. (App. 25a). Noting that the Sixth Circuit provides no definitive guidance on this question, the District Court concluded that

"[w]hile the alleged misconduct may have breached a contract or fiduciary duty, it is also a 'quintessential example of a fraudulent omission of a material fact under the federal securities laws.'" (App. 20a-21a) (citation omitted). The District Court also found that Respondents' conduct was "in connection with" the purchase or sale of securities because it concluded that Petitioner "allege[s] a course of fraudulent conduct involving . . . [the] decision to purchase [ ] mutual funds." (App. 25a). The District Court determined, based on its reading of *Dabit*, that "it is enough for 10(b) and 10b-5 actions that the fraud 'coincide with a securities transaction — whether by the plaintiff or by someone else.'" (App. 23a) (citation omitted).

The Sixth Circuit's Decision

On September 17, 2009, the Sixth Circuit affirmed the dismissal of Petitioner's class claims as precluded by SLUSA. *See* 581 F.3d 305 (App. 1a-11a). Because the parties agreed that the action was a covered class action based on state law and involving covered securities, the Sixth Circuit focused on answering only one question:

> Does the [ ] [C]omplaint] allege an "untrue statement" or a "material omission" of fact "in connection with the purchase or sale" of Fifth Third mutual funds or allege that the Bank used a "manipulative or deceptive device or contrivance in connection with the purchase or sale" of Fifth Third mutual funds?

Id. at 309 (App. 5a).

The Sixth Circuit began its analysis by selecting several phrases from the Complaint, that were provided as part of the background, and stringing them together to find, *albeit* incorrectly, that the Complaint "alleges misrepresentations, material omissions and manipulation." *See id.* (App. 5a). The Sixth Circuit stated:

> Consider: it alleges that Fifth Third failed to inform trust beneficiaries that their trust accounts would be invested in proprietary mutual funds; that the Bank carried out a "planned corporate scheme" that was "intended to (and did) lure grantors, testators, and others to designate [Fifth Third as trustee]," Am. Compl. ¶¶ 25, 29; that the Bank purported to "provide planning 'advice' under the guise that the advice was customized when, in fact, it [was] not," Am. Compl. ¶ 35; that the Bank "did not deal honestly, ethically, fairly, and/or in good faith" with the class, Am. Compl. ¶ 6; that the Bank intentionally and "knowingly overcharged" its trust clients, Am. Compl. ¶ 75; and that the Bank's policies amounted to a "scheme." Am. Compl. ¶¶ 25, 29, 38–39, 49–51, 59, 64, 66–67, 70, 75, 84.

581 F.3d at 309-10 (App. 5a).

Next, the Sixth Circuit turned to the "in connection with" clause, holding that the "[C]omplaint also alleges that Fifth Third made misrepresentations to the trust beneficiaries and otherwise manipulated them 'in connection with' the sale of Fifth Third mutual funds, a conclusion that follows from *Dabit*." *Id.* at 310. (App 5a-6a).

Recasting Petitioner's claims, the Sixth Circuit found that "[a]ll of Segal's counts — breach of fiduciary duty, unjust enrichment, breach of contract — revolve around Fifth Third's decision to buy mutual fund shares. Segal's allegations do not merely 'coincide' with securities transactions; they depend on them." *See id.* (App. 6a).

Despite the Complaint expressly disclaiming that Petitioner's claims are based on misrepresentation or manipulation, the Sixth Circuit, notwithstanding its recognition that Petitioner is the "'master of his complaint,'" *see id.* at 312 (App. 10a) (citation omitted), held that "he cannot avoid [SLUSA's] application through artful pleading that removes the covered words from the complaint but leaves in the covered concepts." *Id.* at 311 (App. 7a) (internal citations omitted). The Sixth Circuit also discarded the proposition that because Petitioner's state-law claims do not depend on any allegations of misrepresentation or manipulation, they are not material to them, erroneously finding that "[t]he Act does not ask whether the complaint makes 'material' or 'dependent' allegations of misrepresentation in connection with buying or selling securities. It asks whether the complaint includes these types of allegations, pure and simple." *See id.* (App. 8a). The Sixth Circuit, in reliance on the single, out of context comment in *Dabit* that "SLUSA's prohibitions must be 'broad[ly]' construed," further stated that "it becomes clear that we have no license to draw a line between SLUSA-covered claims that must be dismissed and SLUSA-covered claims that must not be." *See id.* (App. 9a) (citing *Dabit*, 547

U.S. at 86). Noting that the Third Circuit's decision in *LaSala v. Bordier et Cie*, 519 F.3d 121 (3d Cir. 2008), "appears to provide some support for [Petitioner's] position on this point," the Sixth Circuit instead relied on *Rowinski v. Salomon Smith Barney, Inc.*, 398 F.3d 294 (3d Cir. 2005), even though the later *LaSala* decision applied the test it set forth in *Rowinski* when it found that SLUSA did not preclude the type of claims Petitioner alleges. *See* 581 F.3d at 311-12. (App. 9a).

The Sixth Circuit also rejected Petitioner's argument that the claims should be precluded only if "the underlying factual allegations would otherwise give rise to an actionable claim under federal securities laws." *See id.* at 312. (App. 10a). Finally, the Sixth Circuit disagreed with Petitioner that precluding such claims as in the Complaint "'eliminate[s] any remedy against an unfaithful fiduciary' short of removing the trustee," *see id.* at 312 (App. 10a), and justified its holding, in part, on the availability of certain, non-class remedies. *See id.* (App. 10a-11a).

Petitioner timely filed a petition for rehearing and for rehearing *en banc*, which was summarily denied. (App. 26a).

REASONS FOR GRANTING THE PETITION

The Court should grant writ of *certiorari* to address the critical and prevalent question of the preclusive scope of SLUSA. The Court previously addressed the scope of SLUSA in a different context in *Dabit* to resolve the split between the circuits over whether SLUSA applied to claims brought solely on

behalf of persons who were induced to hold (but not purchase or sell) securities. Although *Dabit* only addressed this narrow question, in the four years since *Dabit*, based on variant readings of SLUSA and *Dabit*, the circuits have widely divided on the types of traditional state law claims precluded. Therefore, a pressing need exists for the Court to set a uniform standard and resolve the split of authority among the circuits.

I. Background of SLUSA and *Dabit*

A. Congress Intended SLUSA to Preclude Avoidance of the PSLRA's Requirements in Federal Securities Fraud Actions

Congress enacted the PSLRA to curb "perceived abuses of the class-action vehicle in litigation involving nationally traded securities." *Dabit*, 547 U.S. at 81. The PSLRA imposed heightened pleading requirements in actions brought pursuant to §10(b). *See Dura Pharms., Inc. v. Broudo*, 544 U.S. 336, 345 (2005). However, as a consequence of the PSLRA's pleading requirement, some plaintiffs attempted to circumvent the statute by filing their securities fraud cases in state court. Congress responded with SLUSA. As the Court explained:

> The effort to deter . . . those suits whose nuisance value outweighs their merits . . . had an unintended consequence: It prompted at least some members of the plaintiffs' bar to avoid the federal forum altogether. Rather than face the obstacles set in their path . . . plaintiffs and their representatives began bringing class actions under state law, often in

> state court. . . . To stem this "shif[t] from Federal to State courts" and "prevent certain State private securities class action lawsuits alleging fraud from being used to frustrate the objectives of" the Reform Act, SLUSA §§ 2(2), (5), 112 Stat. 3227, Congress enacted SLUSA.

Dabit, 547 U.S at 82.

SLUSA seeks to ensure that securities fraud cases are heard only under the strict, uniform standards prescribed by federal law. Thus, the legislative history and the text of the statute make clear that Congress meant only to preclude class claims for conduct traditionally remedied under the federal securities laws, brought in state court to evade the PSLRA.

To establish SLUSA preclusion, four conditions must be met: (1) the underlying suit must be a "covered class action"; (2) the action must be based on state or local law; (3) the action must concern a "covered security"; and (4) the defendant must have misrepresented or omitted a material fact or employed a manipulative device or contrivance "in connection with the purchase or sale" of that security. 15 U.S.C. §78bb(f)(1). Although the "in connection with" language was left undefined by the statute, courts interpreting that phrase have looked at §10(b) and Rule 10b-5 for guidance. *See Dabit*, 547 U.S. at 86 ("Application of that presumption is particularly apt here; not only did Congress use the same words as are used in §10(b) and Rule 10b-5, but it used them in a provision that appears in the same statute as §10(b)."); *Gray v. Seaboard Sec., Inc.*, No.

03-7184, 2005 U.S. App. LEXIS 4098, at *5 n.2 (2d Cir. Mar. 9, 2005).

Thus, SLUSA preclusion only applies where a defendant's alleged conduct would constitute a violation of the federal securities laws. A proper claim under §10(b) must allege: (i) the misstatement or omission of a material fact, (ii) made with scienter, (iii) in connection with the purchase or sale of securities, (iv) upon which the plaintiff justifiably relied, and (v) which proximately caused the plaintiff's injury. *Stoneridge Inv. Partners, LLC v. Scientific-Atlanta, Inc.*, 552 U.S. 148, 157 (2008). As the Sixth Circuit stated,

> [S]ecurities laws are clear. They mandate disclosure of certain things . . . and then they allow the company to remain silent regarding other matters if it so chooses. If it in fact chooses to speak, then it must make sure that what it says does not mislead investors into believing something that is untrue. . . . Plaintiffs cannot, however, turn the silence that the securities laws permit into liability.

J&R Mktg., SEP v. GMC, 519 F.3d 552, 564 (6th Cir. 2008) (citations omitted).

In the instant case, Petitioner does not allege a specific misrepresentation or omission, or that he was induced to act or not act "in connection with" any security. Instead, as a trust beneficiary, Petitioner had no power over disposition of the trust assets and, therefore, even if omissions and/or misrepresentations were alleged, they could not form a claim under the federal securities laws because

such deceptive conduct by Respondents could not induce any conduct — whether to buy, sell, or hold — by Petitioner.

B. The Narrow Holding of *Dabit*

After SLUSA was enacted, the Second and Seventh Circuits diverged as to whether SLUSA preempted state-law holder class actions that otherwise included all of the elements of a §10(b) claim, but did not allege any purchase or sale — but only the retention — of a covered security. The Second Circuit in *Dabit v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 395 F.3d 25 (2d Cir. 2005), held that "the purchaser-seller rule of *Blue Chip Stamps v. Manor Drug Stores*, 421 U.S. 723, 44 L. Ed. 2d 539, 95 S. Ct. 1917 (1975), applies as a limit on SLUSA's 'in connection with' requirement such that SLUSA does not preempt claims that do not allege purchases or sales made by the plaintiff or the alleged class members." *Id.* at 28. Thus, because plaintiffs were fraudulently induced not to sell the covered securities, but instead to continue holding them, their state law claims fell outside of SLUSA's scope. Four months after the Second Circuit's decision, the Seventh Circuit, in *Kircher v. Putnam Funds Trust*, 403 F.3d 478 (7th Cir. 2005), rejected the Second Circuit's approach excluding holders from the scope of SLUSA, finding that "SLUSA is as broad as §10(b) itself and that limitations on private rights of action to enforce §10(b) and Rule 10b-5 do not open the door to litigation about securities transactions under state law. Plaintiffs' claims are connected to their own purchases of securities and thus are blocked by SLUSA." *See id.* at 484.

This Court granted *certiorari* to resolve the split. The Court held that for purposes of SLUSA, the distinction between holders and purchasers or sellers of securities is irrelevant and the identity of plaintiffs does not determine whether the complaint alleges fraud "in connection with the purchase or sale" of securities. Thus, *Dabit* did not touch the Court's precedent interpreting whether a misrepresentation occurred "in connection with" the purchase or sale of a covered security. In fact, *Dabit* specifically directed that pre-SLUSA case law should be applied in interpreting the "in connection with" requirement under SLUSA. *See* 547 U.S. at 85-86. Therefore, the Sixth Circuit's expansion of the narrow holding of *Dabit* from precluding investors induced by a securities fraud to retain a security to precluding beneficiaries of fiduciary accounts, with no investment authority, who could not rely on misrepresentations and/or omissions to buy, sell, or hold a covered security stretches SLUSA beyond its language and any intended purpose the drafters of SLUSA could have envisioned.

II. The Sixth Circuit Decision Improperly Expanded the Narrow Holding of *Dabit*

The Sixth Circuit's wholesale expansion of SLUSA preclusion to all "state-law ***securities-related*** claims," *see* 581 F.3d at 308 (App. 2a) (emphasis added), is at odds with the statute's language, Congress' purpose in enacting it, and the Court's precedent, including *Dabit*. The type of claims precluded under the Sixth Circuit decision are traditional state-law claims that this Court carefully

distinguished from the type of claim asserted in *Dabit*, and are instead the type of claim this Court has repeatedly excluded from the reach of the federal securities laws. *See Dabit*, 547 U.S. at 87 ("[W]e do not lose sight of the general 'presum[ption] that Congress does not cavalierly pre-empt state-law causes of action.'"). Thus, it is hardly surprising that the Sixth Circuit's analysis and decision markedly diverges from those of other circuits.

The Sixth Circuit found that Petitioner's claims were precluded by SLUSA in reliance on a single comment in *Dabit* — that "Congress envisioned a broad construction" of SLUSA, which the Sixth Circuit applied without regard to the limited factual and legal context in which that comment was made. *See Dabit*, 547 U.S. at 86-87. In *Dabit*, the complaint alleged every element of a conventional federal securities law violation: "[t]he holder class action that respondent tried to plead . . . is distinguishable from a typical Rule 10b-5 class action in only one respect: It is brought by holders instead of purchasers or sellers." 547 U.S. at 88-89. Therefore, in *Dabit*, the only issue was whether a person fraudulently induced to continue holding a security based on what were otherwise indisputable allegations of a §10(b) violation was precluded by the "in connection with" requirement of SLUSA. It was solely to this determination that the Court applied its "broader interpretation of the statutory language" comment by holding that "[t]he requisite showing . . . is 'deception 'in connection with the purchase or sale of any security,' not deception of an identifiable purchaser or seller.'" *Id.*

Importantly, *Dabit* makes clear that SLUSA preclusion turns on "deception" inducing an investment decision in a particular security. *See* 547 U.S. at 85. The Sixth Circuit, needing to find a "deception" upon Petitioner as required by *Dabit*, stretched this Court's comment that SLUSA is subject to a "broad construction" by ignoring the requirement that a complaint be construed in the manner most amenable to finding that the claims are not precluded by SLUSA, *see Dabit,* 395 F.3d at 31 (applying Rule 12(b)(6) standard in SLUSA context), *overruled on other grounds*, 547 U.S. 71; *PR Diamonds, Inc. v. Chandler*, 364 F.3d 671, 683 (6th Cir. 2004), and found that SLUSA required it to impute theories to Petitioner's claims not alleged if they could conceivably be converted from claims for breaches of fiduciary duty and contract to ones that sound in fraud. *See* 581 F.3d at 311 (App. 8a-9a).

This Court predicated its *Dabit* decision on concerns that, absent SLUSA preclusion of holder claims, federal and state class actions would proceed simultaneously, leading to inconsistent results; a situation that would "squarely conflict[ ] with the congressional preference for 'national standards for securities class action lawsuits involving nationally traded securities.'" *Id.* at 86-87 (citing SLUSA §2(5), 112 Stat. 3227) (footnote omitted). In determining whether a claim is precluded by SLUSA, this Court highlighted the importance of considering whether the state-law claim at issue was one that was traditionally pursued under state or federal law, noting that "federal law, not state law, has long been the principal vehicle for asserting class-action

securities fraud claims," and that "while state-law holder claims were theoretically available . . . the assertion of such claims by way of class action was virtually unheard of before SLUSA." *Id.* Thus, the Court concluded that *Dabit* was "hardly a situation, then, in which a federal statute has eliminated a historically entrenched state-law remedy." *Id.* (citing *Bates v. Dow Agroscience LLC*, 544 U.S. 431, 449 (2005) (observing that a "long history" of state law tort remedy "add[ed] force" to the presumption against pre-emption)).

Plainly, the type of breach of fiduciary duty and contract claims asserted by Petitioner are claims traditionally asserted under state law, and SLUSA preclusion of those claims would, indeed, "eliminate [ ] historically entrenched state-law remed[ies]." *See id.* For instance, if a trustee responsible for a large number of trusts secretly "borrowed" the cash assets of those trusts to cover margin on his own personal brokerage account, under the Sixth Circuit's decision, because the trustee used the trust funds for a "securities-related" purpose, the trust beneficiaries would be precluded by SLUSA from pursuing their state-law breach of fiduciary duty, contract, and conversion claims on a class basis against the wrongdoer-trustee. Thus, the Sixth Circuit's distortion of *Dabit's* SLUSA preclusion of "'certain State private securities class action lawsuits alleging fraud from being used to frustrate the objectives' of the [PSLRA]," 547 U.S. at 86, to preclusion of all "state-law ***securities-related*** claims," 581 F.3d at 308 (App. 2a) (emphasis added), is clearly beyond the holding of *Dabit* and the scope of SLUSA.

In *Stoneridge*, 552 U.S. 148, this Court reaffirmed the limited scope of the federal securities laws:

> Were the implied cause of action to be extended to the practices described here, however, there would be a risk that the federal power would be used to invite litigation beyond the immediate sphere of securities litigation and in areas already governed by functioning and effective state-law guarantees. Our precedents counsel against this extension. . . . Though § 10(b) is "not 'limited to preserving the integrity of the securities markets . . .,'" it does not reach all commercial transactions that are fraudulent and affect the price of a security in some attenuated way.

Id. at 161-62 (citing *Marine Bank v. Weaver*, 455 U.S. 551, 556 (1982) ("Congress, in enacting the securities laws, did not intend to provide a broad federal remedy for all fraud."); *Santa Fe Indus., Inc. v. Green*, 430 U.S. 462, 479-80 (1977) ("There may well be a need for uniform federal fiduciary standards. . . . But those standards should not be supplied by judicial extension of § 10(b) and Rule 10b-5 to 'cover the corporate universe.'") (citation omitted)); *see also SEC v. Zandford*, 535 U.S. 813, 820 (2002) ("[§10(b)] must not be construed so broadly as to convert every common-law fraud that happens to involve securities into a violation.").

Previously, in *Santa Fe*, this Court emphasized the importance of respecting congressional intent in construing federal securities statutes in refusing to include breaches of fiduciary duty and mismanagement into conduct actionable under the

federal securities laws. As the Court noted, allowing the federal securities laws to govern such conduct:

> would be to bring within the Rule a wide variety of corporate conduct traditionally left to state regulation. . . . Absent a clear indication of congressional intent, we are reluctant to federalize the substantial portion of the law of corporations that deals with transactions in securities, particularly where established state policies of corporate regulation would be overridden.

430 U.S. at 477-79 (citations omitted).

The Court also noted that Congress did not intend to "bring within the scope of §10(b) instances of corporate mismanagement such as this, in which the essence of the complaint is that shareholders were treated unfairly by a fiduciary," *id.* at 477, finding that "once full and fair disclosure has occurred, the fairness of the terms of the transaction is at most a tangential concern of the statute." *Id.* at 477-78 (citations omitted). The Sixth Circuit's preclusion of traditional breach of fiduciary duty and contract claims that only tangentially involve securities conflicts with this long-standing congressional policy regarding the limited reach of the federal securities laws.

Moreover, the Sixth Circuit justified its holding, in part, on the availability of other remedies, but such a consideration is irrelevant. Unlike in *Dabit*, where all of the elements of a securities law violation were alleged, the Sixth Circuit applied SLUSA to traditional state-law claims that are not cognizable

under the federal securities laws, and thus eliminated the class action device for claims involving conduct-based traditional breaches of fiduciary and contractual duties. Without the class action device, beneficiaries of small trusts have no practical remedy to redress such misconduct. *See, e.g., Deposit Guar. Nat'l Bank v. Roper*, 445 U.S. 326, 338-39 (1980).

III. The Sixth Circuit Decision Is Contrary to the Decisions of Other Circuits

A. The Sixth Circuit Decision Is Inconsistent with Circuits that Require a Causal Connection Between the Fraud and the Securities Transaction

The Sixth Circuit decision splits with circuits that have only applied SLUSA, post-*Dabit*, where some detrimental reliance on a misrepresentation or omission is alleged. Indeed, *Dabit* instructs that the "requisite showing" for SLUSA preclusion is "deception 'in connection with the purchase or sale of any security.'" 547 U.S. at 85 (citation omitted). "[T]he critical question is whether [the] amended complaint can reasonably be read as alleging a sale or purchase of a covered security made in reliance on the allegedly faulty information provided to himself and to putative class members. . . ." *Santa Fe*, 279 F.3d at 598.[1] The Court has also previously stated:

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[1] Although *Dabit* overruled a portion of the holding in *Santa Fe* dealing with holders, the case is still valid and has been relied upon for its interpretation of SLUSA's requirements. *See, e.g., Gavin v. AT&T Corp.*, 464 F.3d 634, 639-40 (7th Cir. 2006)

> Reliance by the plaintiff . . . is an essential element. . . . It ensures that, for liability to arise, the "requisite causal connection between a defendant's misrepresentation and a plaintiff's injury" exists as a predicate for liability. . . .

Stoneridge, 552 U.S. at 159 (internal citations omitted).

In the instant case, reliance is neither an element of any of Petitioner's claims, nor does Petitioner allege reliance to his detriment on any misstatement or omission by Respondents regarding a particular securities investment. Such an allegation would be nonsensical because Respondents had sole authority over disposition of the trust assets, and, thus, Petitioner could not be induced by any deception to purchase, sell or hold any security. Because reliance was not an element of Petitioner's claims, the claims should not have been precluded by SLUSA.

Cases interpreting *Dabit* have held that for a claim to be precluded a causal connection between the fraud and the securities transaction is required, *i.e.*, that the alleged fraudulent conduct induced someone to act or not act to his detriment. *See, e.g.*, *Sofonia v. Principal Life Ins. Co.*, 465 F.3d 873, 877 (8th Cir. 2006) ("'[T]he critical question is whether [the] complaint can reasonably be read as alleging a sale or purchase of a covered security ***made in reliance*** on the allegedly faulty information.'") (citation omitted; emphasis added). Even *Dabit*

(finding that SLUSA is not applicable because defendants did not influence the purchase or sale of security).

makes clear that "the brokers allegedly ***relied*** on the analysts' reports in advising their investor clients and ***in deciding whether or not to sell their own holdings***, and the ***clients and brokers both continued to hold their stocks long beyond the point when***, had the truth been known, ***they would have sold***." 547 U.S. at 75 (emphasis added). *See also Gavin*, 464 F.3d at 639-40 (finding no SLUSA preclusion because defendants did not influence the purchase or sale of a security). "Reliance provides the requisite causal connection between a defendant's misrepresentation and a plaintiff's injury." *Basic Inc. v. Levinson*, 485 U.S. 224, 243 (1988) (citing *Ernst & Ernst v. Hochfelder*, 425 U.S. 185, 206 (1976) ("'[The bill [§10(b)] provides that any person who unlawfully manipulates the price of a security, or who induces transactions in a security by means of false or misleading statements, or who makes a false or misleading statement in the report of a corporation, shall be liable in damages to those who have bought or sold the security at prices affected by such violation or statement.")).

Therefore, as the Second, Third, Seventh, and Ninth Circuits have properly determined, SLUSA preclusion does not apply to a state law class action claim when the misrepresentations are simply background details and the plaintiff does not claim to have been induced to action or inaction by the misstatement. *See, e.g., Gavin*, 464 F.3d at 640 (refusing to apply SLUSA to "garden variety issues of state law consumer fraud" and noting that no "doubt remains" that SLUSA does not apply when the claims have nothing to do with stock manipulation,

"with failure to make full disclosure" of material facts, "with the regulation of stock exchanges, or with any other concern of federal securities law"). In *LaSala,* 519 F.3d 121, the Third Circuit likewise held that a claim for breach of fiduciary duty was not precluded by SLUSA because the alleged misrepresentations were "extraneous" and "merely background details that need not have been alleged." *Id.* at 141. The Third Circuit noted that SLUSA only precludes if the "securities-trade ingredient" is met, which is "designed to distinguish between state-law-based suits that, no matter how pleaded, in essence allege securities fraud, and those that allege other wrongs." *See id.* at 128-29. If "an allegation of misrepresentation in connection with a securities trade, implicit or explicit, operates as a factual predicate to a legal claim, that ingredient is met. ***To be a factual predicate, the fact of a misrepresentation must be one that gives rise to liability, not merely an extraneous detail.***" *Id.* at 141 (emphasis added). *See also Ring v. AXA Fin., Inc.*, 483 F.3d 95, 101 (2d Cir. 2007) (holding that it would not "preempt and dismiss a suit that alleges fraud occurred in connection only with a promise in a contract that does not relate to a "covered security" even where another promise in the same contract does").

The Ninth Circuit in *Proctor v. Vishay Intertechnology, Inc.*, 584 F.3d 1208 (9th Cir. 2009), concluded that SLUSA preclusion only applies to a "claim [that] ***rests*** on allegations of 'misrepresentation[s] or omission[s] of a material fact in connection with the purchase or sale of securities.'" *Id.* at 1221 (emphasis added). While

agreeing with the Sixth Circuit that a "misrepresentation need not be a specific element of the claim to fall within preclusion," *id.* at 1222 n.13, the Ninth Circuit required that for a claim to rest on a misrepresentation or omission within the meaning of SLUSA, it must be specifically alleged as an "overt act[ ] . . . in furtherance" of defendants' "conspiracy" to induce investors to take disadvantageous action in connection with securities. *See id.* at 1223.

Accordingly, the Second, Third, Seventh, and Ninth Circuits make a distinction between a plaintiff induced by misrepresentations or omissions to purchase, sell or hold a security and one who was not. The Sixth Circuit's decision ignores this element in its SLUSA analysis. Indeed, in the instant case, the trustee/beneficiary relationship between Petitioner and Respondents preceded Respondents' breaches of their duties, which did not begin until Respondents subsequently developed their mutual fund business. Therefore, Petitioner could not have been induced to retain Respondents as trustees based on any deception in connection with that use of trust assets because that use did not yet exist. And, after Respondents were retained as trustee, Petitioner had no influence over Respondents' use of the trust funds and could not be induced to take any action or inaction in connection with them. Thus, the fact that Respondents changed their business strategy after being retained as trustee and misused trust assets to benefit their mutual fund business does not convert that later mismanagement into an earlier securities fraud precluded by SLUSA.

The cases relied on by the Sixth Circuit do not counsel otherwise because they all involved fraudulent manipulation of publicly traded securities. In *U.S. Mortgage, Inc. v. Saxton*, 494 F.3d 833 (9th Cir. 2007), plaintiffs' state law class claims were based on allegations of misrepresentations and fraud, *see id.* at 840, and were preempted because those plaintiffs relied on those misrepresentations, which artificially inflated the stock and injured plaintiffs. *See id.* at 839. Similarly, *Anderson v. Merrill Lynch Pierce Fenner & Smith, Inc.*, 521 F.3d 1278 (10th Cir. 2008), involved allegations that the brokerage firm induced a company's president to open a margin account secured by his company's stock, and then liquidate those shares, flooding the market and driving down the price, to benefit its own accounts that had shorted the stock. *See id.* at 1283. Plaintiffs were public shareholders of the company's stock who were injured by the stock's price collapse. Therefore, the claims were premised on market manipulation of the price of a security. *See id.* at 1283, 1287-88; *see also Dabit*, 547 U.S. at 89 (same). Thus, even under the analysis of these cases, Petitioner's claims would not be precluded because he does not allege any claim based upon an underlying securities fraud or stock manipulation.

B. The Sixth Circuit Decision Is in Direct Conflict with Circuits that Allow Plaintiffs to Plead Around SLUSA

The Sixth Circuit acknowledged that Petitioner is the master of his complaint. *See Caterpillar, Inc. v. Williams*, 482 U.S. 386, 398-99 (1987); *Roddy v. Grand Trunk W. R.R.*, 395 F.3d 318, 322 (6th Cir.

2005). Nevertheless, although Petitioner had not alleged — or even used the words — "misrepresentation," "omission," or "deceptive scheme" in his Complaint, the Sixth Circuit believed that it was required under SLUSA to reformulate Petitioner's claims as sounding in fraud and bypass the theories of liability alleged in the Complaint to find SLUSA preclusion. As a result, the Sixth Circuit, in conflict with the Third, Fifth and Ninth Circuits, held that Petitioner "cannot avoid [SLUSA] application through artful pleading." 581 F.3d at 311 (App. 7a).

In *Beckett* v. *Mellon Investor Servs., LLC*, No. 06-36044, 2009 U.S. App. LEXIS 10335 (9th Cir. May 14, 2009), the Ninth Circuit reversed, in part, a dismissal under SLUSA, holding that it was an abuse of discretion to dismiss a complaint with prejudice where the plaintiff could avoid SLUSA preclusion by amending to allege, without reference to any misleading statements or omissions, that defendant's conduct, like Respondents' alleged conduct here, constituted breach of contract, breach of fiduciary duty, and unjust enrichment. *See id.* at *5-6. *See also In re Enron Corp. Sec., Derivative & ERISA Litig.*, 535 F.3d 325, 342 n.15 (5th Cir. 2008) ("We do not reject the rules of these cases," which held plaintiffs "could avoid SLUSA through artful litigating.").

Likewise, in *LaSala*, 519 F.3d 121, the Third Circuit, the same circuit that decided *Rowinski*, 398 F.3d 294, a case relied on by the Sixth Circuit, stated:

> It is important to recognize that *Rowinski* did not hold that any time a misrepresentation is alleged, the misrepresentation-in-connection-with-a-securities-trade ingredient is present. . . . Rather, the point we made in *Rowinski* was that when an allegation of misrepresentation in connection with a securities trade, implicit or explicit, operates as a factual predicate to a legal claim, that ingredient is met. To be a factual predicate, the fact of a misrepresentation must be one that gives rise to liability, not merely an extraneous detail. This distinction is important because complaints are often filled with more information than is necessary. While it may be unwise (and, in some cases, a violation of Rule 8) to set out extraneous allegations of misrepresentations in a complaint, the inclusion of such extraneous allegations does not operate to require that the complaint must be dismissed under SLUSA.

LaSala, 519 F.3d at 141.

Even the Sixth Circuit's citations to cases on this point actually recognized that the "well-pled complaint" rule did not allow plaintiffs to amend their away around a SLUSA dismissal only when the complaint "fairly read" still contained "allegations of fraud or deception involving a covered security." *Saxton*, 494 F.3d at 842 (citation omitted); *Behlen v. Merrill Lynch*, 311 F.3d 1087, 1095-96 (11th Cir. 2002)). The *Saxton* court even stated:

> Allowing amendment of claims to avoid dismissal could allow plaintiffs to 'artfully plead' their way around federal jurisdiction and back into state court — [but] district courts that have confronted the issue have also recognized the inequity of dismissing otherwise valid and viable state law claims on the ground that plaintiff pled — perhaps inadvertently — a cause of action that may be construed as federal in nature. In light of the statutory silence on the issue in SLUSA, the existence of competing policy rationales, and the fact that the granting or denial of leave to amend is ordinarily a matter left to the discretion of the district court, we hold that SLUSA does not prohibit amendment. . . .

494 F.3d at 843.

Accordingly, not only is the Sixth Circuit in direct conflict with other circuits, but more importantly, if the holding is left undisturbed and plaintiff is no longer the "master of his complaint," any creative defense lawyer can recast virtually any cause of action into a claim for fraud. For example, any breach of contract claim can be re-characterized as a fraud claim because a broken promise can be transformed into a misrepresentation. Not only is this contrary to the language and fundamental purpose of SLUSA, the reasoning of *Dabit*, and the holdings of the other circuits, but it opens wide the flood gate for traditional state law claims to be brought in federal court in the guise of federal securities law claims.

C. The Sixth Circuit's Dismissal of the Entire Action Contradicts Other Circuits

According to the Second, Third, and Ninth Circuits, a court is to look at each of the claims in the complaint individually to analyze which, if any, is precluded by SLUSA. Under the law of these circuits, only those claims precluded by SLUSA are to be dismissed, not the entire action. This is also consistent with SLUSA's undisputed purpose "to prevent certain State private securities class action lawsuits alleging fraud from being used to frustrate the objectives" of the PSLRA. *Dabit*, 547 U.S. at 86-87 ("In concluding that SLUSA pre-empts state-law holder class-action ***claims*** of the kind alleged in Dabit's complaint, we do not lose sight of the general 'presum[ption] that Congress does not cavalierly pre-empt state-law ***causes of action***. . . .' SLUSA does not actually pre-empt any state ***cause of action***. It simply denies plaintiffs the right to use the class-action device to vindicate certain ***claims***.") (emphasis added; citation omitted).

In *In re Lord Abbett Mutual Funds Fee Litigation*, 553 F.3d 248 (3rd Cir. 2009), the Third Circuit directly addressed "whether the inclusion of a SLUSA pre-empted state-law claim in a complaint, also alleging non-SLUSA pre-empted claims, requires dismissal of the entire action." *Id.* at 254. Following a thorough analysis of SLUSA's purpose, statutory language, legislative history, and the relevant case law, *see id.* at 254-57, the Third Circuit held that "nothing in either the plain language of the statute or the legislative history suggests that

Congress intended SLUSA to have such a punitive effect," and that "[a]llowing those claims that do not fall within SLUSA's preemptive scope to proceed, while dismissing those that do, is consistent with the goals of preventing abusive securities litigation while promoting national legal standards for nationally traded securities." *Id.* at 255, 257. *See also LaSala*, 519 F.3d at 140-43 (analyzing each claim separately to determine if it is preempted by SLUSA).

The Second Circuit and the Ninth Circuit have also endorsed this application of SLUSA. In *Gray*, 2005 U.S. App. LEXIS 4098, at *3, the Second Circuit stated that "the presence of one or more preempted claims in a complaint" does not require "dismissal of the entire action under SLUSA" and found that a claim-by-claim analysis of the kind the district court undertook here is appropriate." *Id.* at *3 (citing *Dabit*, 395 F.3d at 47). In *Proctor*, the Ninth Circuit held "that SLUSA does not require dismissal of all nonprecluded claims appearing in the same complaint as a precluded claim." 584 F.3d at 1227. The Ninth Circuit looked at the statutory language of SLUSA and found that there was "no indication that the dismissal of the entire action is required." *See id.* In fact, the Ninth Circuit stated that the dismissal of only the precluded claims "fully comports with the statutory language" because "once a precluded SLUSA claim is dismissed, the complaint no longer includes a claim that rests on an allegation of [a] misrepresentation." *See id.* Additionally, the Ninth Circuit found that "the purposes of SLUSA would not be served by the dismissal of entire actions" because "Congress [never] intended to place

roadblocks in the way of federal claims or *non-precluded* state law claims." *See id.* at 1227-28. In fact, if SLUSA required that all claims be dismissed, plaintiffs would be able to "easily circumvent the statute by dividing their claims into two separate actions." *See id.* at 1228. Thus, the Ninth Circuit held that dismissing just the claims that specifically trigger SLUSA is consistent with the statutory language of SLUSA and Congress' goals in enacting SLUSA. *See also Beckett*, 2009 U.S. App. LEXIS 10335, at *4-5 n.1 (analyzing "SLUSA preemption on a claim-by-claim basis").

In contrast, the Sixth Circuit precluded the entire action under SLUSA with no such claim-by-claim analysis. If the Sixth Circuit applied the claim-by-claim analysis followed by the Second, Third, and Ninth Circuits, the claims in the Complaint here would not have been precluded. The Complaint alleges three types of acts or failures to act in violation of Respondents' traditional state law fiduciary and contractual obligations that are not precluded by SLUSA. Two of those alleged breaches of fiduciary and contractual duties — segregating excessive amounts of money for future tax obligations and not providing individualized account analysis and management — had no connection whatsoever to Respondents' subsequent change in business strategy to place trust assets into their proprietary mutual funds, which did not exist when Respondents were retained as trustee. Moreover, with respect to the decision to place trust funds in the proprietary mutual funds, the Complaint contains no allegations that Respondents effectuated

their conduct through the use of any misrepresentation or other deceptive device, or that Petitioner was induced to act or not act in connection with that conduct, which Petitioner was aware of but had no control over. The Sixth Circuit's "all-or-nothing" approach to SLUSA preclusion, therefore, runs afoul of the approach followed by the other circuits.

IV. The Sixth Circuit Decision Eliminates a Historically State Law Remedy

The policy that the federal securities laws not interfere with areas traditionally relegated to state law is a central principle of the Court's securities law jurisprudence. *See, e.g., Santa Fe*, 430 U.S. at 478-79 (refusing to extend the securities laws to cover shareholder claims for breaches of fiduciary duty and concealment by corporate directors and officers because that would "overlap and possibly interfere with" state corporate law). As the Fourth Circuit stated:

> The fundamental purpose of the Securities Exchange Act of 1934 is to implement a "philosophy of full disclosure," *Santa Fe Industries, Inc. v. Green*, 430 U.S. 462, 477-78, 51 L. Ed. 2d 480, 97 S. Ct. 1292 (1977), by providing participants in stock transactions with the information they need to make their investment decisions. *O'Brien v. Continental Illinois Nat. Bank & Trust*, 593 F.2d 54, 60 (7th Cir. 1979). That goal is not furthered by bringing within the ambit of §10(b) claims amounting to breach of contract or common

> law fraud which have long been the staples of state law.

Hunt v. Robinson, 852 F.2d 786, 787-88 (4th Cir. 1988) ("Plaintiff's complaint raises grievances redressable by state law. . . . [The claims are] not transformed into a federal claim simply because the object of the bargain was shares of stock.")

In *Dabit*, the Court explained that preemption was appropriate because the claims brought there were not typical claims under state law and "federal law . . . has long been the principle vehicle for asserting class-action securities fraud claims." *See* 547 U.S. at 88 ("This is hardly a situation, then, in which a federal statute has eliminated a historically entrenched state-law remedy."). In fact, *Dabit* cited *Bates*, 544 U.S. 431, for the proposition that a history of state law remedies for the claim would add power to the presumption against preemption. *Dabit*, 547 U.S. at 88. The claims alleged in the Complaint, in sharp contrast to the claims in *Dabit*, are claims that involve a "long history" of state law enforcement and a "history of a state law remedy," which Congress never meant to preclude. As the Seventh Circuit held:

> When the trustee or agent alone makes the investment decision to purchase or sell, his failure to disclose information about the purchase or sale to the beneficiary or agent does not satisfy the "in connection with" requirement of §10(b). The enforcement of fiduciary and contractual duties owed by a trustee or agent to the beneficiary or principal

> is the concern of state law, not the federal securities laws.

O'Brien, 593 F.2d at 63. *See also Gavin*, 464 F.3d at 640 ("The plaintiffs are not trying to litigate a securities fraud case, but instead a consumer fraud case against companies that have made no effort to influence the purchase or sale of a covered security. 'Congress, in enacting the securities laws, did not intend to provide a broad federal remedy for all fraud.'") (citation omitted).

The obligations of trustees and corresponding rights of trust beneficiaries are historically governed exclusively by state law, and therefore, SLUSA should not preclude the types of claims Petitioner alleges because they are traditionally "the concern of state law, not the federal securities laws." *See O'Brien*, 593 F.2d at 63. Such conduct and the remedy for such conduct fall well outside the scope of the language and purpose of SLUSA.

Therefore, due to the various inconsistent and irreconcilable approaches the circuits use in analyzing the preclusive effect of SLUSA, trust beneficiaries and other plaintiffs alleging state law class claims relating to the management of fiduciary-held assets are burdened with substantial uncertainty as to whether state common law or their contracts any longer protect their interests or whether SLUSA's preclusive scope entirely eliminates their recourse against fiduciary misfeasance. The fate of such claims now depends on the jurisdiction where the suit is filed and thus also encourages forum shopping. Therefore, Petitioner respectfully requests that the Court grant *certiorari*

to resolve the critically important question of the proper analysis of the preclusive effect of SLUSA on traditional state law claims.

CONCLUSION

For the reasons stated above, the petition for writ of *certiorari* should be granted.

March 16, 2010

Respectfully submitted,

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APPENDIX TABLE OF CONTENTS

	Page
APPENDIX A: Opinion of the United States Court of Appeals for the Sixth Circuit, September 17, 2009	1a
APPENDIX B: Opinion of the United States District Court for the Southern District of Ohio, March 25, 2008	12a
APPENDIX C: Order of the United States Court of Appeals for the Sixth Circuit Denying Petition for Rehearing and Rehearing *En Banc*, December 16, 2009	26a

APPENDIX A

UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

No. 08-3576

DANIEL J. SEGAL, on behalf of himself, his minor children and all others similarly situated,
Plaintiff-Appellant,

v.

FIFTH THIRD BANK, N.A., *et al.*,
Defendants-Appellees.

June 11, 2009, Argued
September 17, 2009, Decided
September 17, 2009, Filed

OPINION

JUDGES: Before: SUTTON and GRIFFIN, *Circuit Judges*; LIOI, *District Judge*.*

OPINION BY: SUTTON

SUTTON, Circuit Judge. Daniel Segal challenges the district court's dismissal of this class action, premised on state-law claims of breach of fiduciary duty and breach of contract, against Fifth Third Bank and its holding company, Fifth Third Bancorp.

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* The Honorable Sara Lioi, United States District Judge for the Northern District of Ohio, sitting by designation.

Because the Securities Litigation Uniform Standards Act of 1998 ("SLUSA"), Pub. L. No. 105-353, 112 Stat. 3227, bars Segal's claims, we affirm.

I.

Segal is a beneficiary of trust accounts formerly administered by Fifth Third. In 2007, he sued the Bank on behalf of himself, his children and "all beneficiaries of trust, estate, or other fiduciary accounts for which the Bank . . . acted as a . . . corporate fiduciary at any time from March 1, 2001 to the present." Am. Compl. ¶ 57. Fifth Third, the complaint alleges, breached its fiduciary and contractual duties to the class in three ways: (1) It invested fiduciary assets in proprietary (and often higher-fee) Fifth Third mutual funds rather than superior funds operated by the Bank's competitors; (2) it promised trust beneficiaries that their fiduciary accounts would receive "individualized" management and breached that agreement by providing standardized and largely automated management, Am. Compl. ¶ 87, often by "relatively inexperienced" and "low-level" employees, Am. Compl. ¶¶ 35(e), 47; and (3) it invested too many of the funds' assets in low-yielding investments in order to cover the accounts' near-term tax liabilities.

Relying on SLUSA, which prohibits individuals from filing class actions involving fifty or more people seeking to vindicate state-law securities-related claims, the district court granted Fifth Third's motion to dismiss for failure to state a claim. This appeal followed.

II.

We give fresh review to a district court's order to dismiss a claim under Civil Rule 12(b)(6). *Mitchell v.*

McNeil, 487 F.3d 374, 376 (6th Cir. 2007). We must accept all allegations in the complaint as true. *Id.* And we must determine whether the allegations plausibly state a claim for relief. *Ashcroft v. Iqbal*, U.S., 129 S. Ct. 1937, 1949, 173 L. Ed. 2d 868 (2009).

SLUSA was not enacted in a vacuum. In 1995, Congress passed the Private Securities Litigation Reform Act (PSLRA), Pub. L. No. 104-67, 109 Stat. 737, which curbed "perceived abuses" of federal class-action securities litigation by imposing special requirements and obstacles on claimants filing such actions. *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Dabit*, 547 U.S. 71, 81, 126 S. Ct. 1503, 164 L. Ed. 2d 179 (2006); *see also* 15 U.S.C. §§ 77z-1, 78u-4. After PSLRA became law, some claimants responded by "avoid[ing] the federal forum altogether," bringing "class actions under state law, often in state court" instead. *Dabit*, 547 U.S. at 82.

That apparently was not what Congress had in mind. In 1998, it sought to close the gap in coverage by enacting SLUSA. To "prevent certain State private securities class action lawsuits alleging fraud from being used to frustrate the objectives of" PLSRA, *Dabit*, 547 U.S. at 82 (quoting SLUSA, § 2), SLUSA expressly prohibits certain state law class actions:

> (1) Class action limitations.
>
> No covered class action based upon the statutory or common law of any State or subdivision thereof may be maintained in any State or Federal court by any private party alleging—
>
> (A) an untrue statement or omission of a material fact in connection with the purchase or sale of a covered security; or

> (B) that the defendant used or employed any manipulative or deceptive device or contrivance in connection with the purchase or sale of a covered security.

15 U.S.C. § 77p(b); *accord id.* § 78bb(f)(1). SLUSA prohibits a claimant from filing a class action when four things are true: (1) the class action is "covered," which means it involves more than fifty members; (2) the claims are based on state law; (3) the action involves a "covered security," which means a nationally listed security; and (4) the complaint alleges "an untrue statement or omission of a material fact in connection with" buying or selling a covered security or a "manipulative or deceptive device or contrivance in connection with" buying or selling a covered security. 15 U.S.C. § 77p(b); *accord id.* § 78bb(f)(1); *see also In re Enron Corp. Sec.*, 535 F.3d 325, 338-39 (5th Cir. 2008).

The Supreme Court has construed the Act's expansive language broadly. *Dabit*, 547 U.S. at 85-86. A former Merrill Lynch stock broker, Dabit filed a state-law class-action securities claim alleging that his employer fraudulently manipulated stock prices, causing him, other brokers and their clients to hold onto overvalued stocks. *See id.* at 75. "A narrow reading of the statute," the Court concluded, would fail to respect "ordinary principles of statutory construction," would "undercut the effectiveness" of PSLRA and would "run contrary to SLUSA's stated purpose." *Id. at 86.* In holding that the Act barred Dabit's claim, the Court thus "presum[ed] that Congress envisioned a broad construction" of SLUSA's preclusive reach. *Id.*

Today's parties share some common ground. They agree that this action involves (1) a "covered class

action" because it includes more than fifty class members, (2) state-law claims and (3) "covered securities," namely the proprietary Fifth Third mutual funds. *See* 15 U.S.C. §§ 78bb(f)(5), 77p(f). That leaves the last question: Does the amended complaint allege an "untrue statement" or a "material omission" of fact "in connection with the purchase or sale" of Fifth Third mutual funds or allege that the Bank used a "manipulative or deceptive device or contrivance in connection with the purchase or sale" of Fifth Third mutual funds? *See* 15 U.S.C. §§ 78bb(f)(1), 77p(b). If either one is true, SLUSA bars the complaint.

Segal's amended complaint alleges misrepresentations, material omissions and manipulation. Consider: it alleges that Fifth Third failed to inform trust beneficiaries that their trust accounts would be invested in proprietary mutual funds; that the Bank carried out a "planned corporate scheme" that was "intended to (and did) lure grantors, testators, and others to designate [Fifth Third as trustee]," Am. Compl. ¶¶ 25, 29; that the Bank purported to "provide planning 'advice' under the guise that the advice was customized when, in fact, it [was] not," Am. Compl. ¶ 35; that the Bank "did not deal honestly, ethically, fairly, and/or in good faith" with the class, Am. Compl. ¶ 6; that the Bank intentionally and "knowingly overcharged" its trust clients, Am. Compl. ¶ 75; and that the Bank's policies amounted to a "scheme." Am. Compl. ¶¶ 25, 29, 38-39, 49-51, 59, 64, 66-67, 70, 75, 84. The complaint incorporates each allegation and makes them applicable to all counts of the complaint.

The amended complaint also alleges that Fifth Third made misrepresentations to the trust beneficiaries and otherwise manipulated them "in connection

with" the sale of Fifth Third mutual funds, a conclusion that follows from *Dabit*. *See U.S. Mortgage, Inc. v. Saxton*, 494 F.3d 833, 844 (9th Cir. 2007). The "in connection with" clause, *Dabit* held, has the same meaning as the same words used in § 10(b) of the Securities Exchange Act of 1934 and *Rule 10b-5*. *See Dabit*, 547 U.S. at 85-86; *see also* 15 U.S.C. § 78j(b); 17 C.F.R. § 240.10b-5(c). Before the passage of SLUSA, courts had construed the "in connection with" clause "flexibly," not "technically and restrictively," *S.E.C. v. Zandford*, 535 U.S. 813, 819, 122 S. Ct. 1899, 153 L. Ed. 2d 1 (2002) (internal quotation marks omitted), requiring only that "the fraud alleged coincide with a securities transaction—whether by the plaintiff or by someone else," *Dabit*, 547 U.S. at 85 (internal quotation marks omitted). Because Congress could "hardly have been unaware" of this broad construction when it chose to use the same phrase in SLUSA, *Dabit* held that the same meaning applies to both sets of laws. 547 U.S. at 85; *see Siepel v. Bank of America*, 526 F.3d 1122, 1127 (8th Cir. 2008); *Saxton*, 494 F.3d at 844.

The amended complaint satisfies this modest requirement. All of Segal's counts—breach of fiduciary duty, unjust enrichment, breach of contract—revolve around Fifth Third's decision to buy mutual fund shares. Segal's allegations do not merely "coincide" with securities transactions; they depend on them. *Cf. Siepel*, 526 F.3d at 1124 (concluding that SLUSA prohibits "state-law claims that a trustee breached its fiduciary duty by failing to disclose conflicts of interest in its selection of nationally-traded investment securities"). Under these circumstances, the district court properly concluded that SLUSA requires the dismissal of this complaint.

Segal first quarrels with the district court on the ground that it failed to respect the following disclaimer in his amended complaint: "None of the causes of action stated herein are based upon any misrepresentation or failure to disclose material facts to plaintiffs . . . ." Am. Compl. ¶ 2. How, Segal says, can he be tagged with alleging what he expressly disclaimed?

It is not that simple. Courts may look to—they must look to—the substance of a complaint's allegations in applying SLUSA. Otherwise, SLUSA enforcement would reduce to a formalistic search through the pages of the complaint for magic words—"untrue statement," "material omission," "manipulative or deceptive device"—and nothing more. But a claimant can no more elude SLUSA's prohibitions by editing out covered words from the complaint than by disclaiming their presence. For the same reason a claimant does not have the broader authority to disclaim the applicability of SLUSA to a complaint, he cannot avoid its application through artful pleading that removes the covered words from the complaint but leaves in the covered concepts. *See Rowinski v. Salomon Smith Barney Inc.*, 398 F.3d 294, 300 (3d Cir. 2005); *Miller v. Nationwide Life Ins. Co.*, 391 F.3d 698, 702 (5th Cir. 2004).

To do otherwise would "frustrate the objectives" of PSLRA and SLUSA, *Dabit*, 547 U.S. at 82, and re-open the "'federal flight' loophole" SLUSA sought to close. *Spielman v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 332 F.3d 116, 123 (2d Cir. 2003). The question under SLUSA is not whether the complaint uses the prohibited words: "an untrue statement or omission of a material fact" or a "manipulative or deceptive device or contrivance." It is whether the

complaint covers the prohibited theories, no matter what words are used (or disclaimed) in explaining them. *See Rowinski*, 398 F.3d at 300; *Dudek v. Prudential Secs., Inc.*, 295 F.3d 875, 879-80 (8th Cir. 2002); *Behlen v. Merrill Lynch*, 311 F.3d 1087, 1094 (11th Cir. 2002).

Although Segal disclaims any allegation of "misrepresentation or failure to disclose material facts," Am. Compl. ¶ 2, the remainder of the amended complaint shows otherwise. Four paragraphs after the disclaimer, Segal announces that "[t]he gravamen of this Complaint is that the defendants did not deal honestly, ethically, fairly, and/or in good faith with Fifth Third's Beneficiaries." Am. Compl. ¶ 6. And he corroborates this "gravamen" of the complaint with allegations of fraud, manipulation and "scheme."

Segal persists that this approach "magically transform[s]" his claims from "garden-variety" state-law claims into federal securities claims. Reply Br. at 12. But that is not true. SLUSA does not convert state-law claims into federal securities claims. It says that certain types of state-law claims may not be filed in state court as a class action if the class includes more than fifty people. Nothing about this procedural restriction on how Segal vindicates his state-law rights converts his claims into federal claims.

Also unavailing is Segal's contention that the state-law claims do not depend upon allegations of misrepresentation or manipulation—and thus are not material to them. But that again is not how SLUSA works. The Act does not ask whether the complaint makes "material" or "dependent" allegations of misrepresentation in connection with buying or selling securities. It asks whether the complaint includes these types of allegations, pure and simple. Recall:

"No covered class action may be maintained . . . alleging—an untrue statement or omission of a material fact . . . or that the defendant used or employed any manipulative or deceptive device in connection with the purchase or sale of a covered security." 15 U.S.C. § 77p(b); *accord* 15 U.S.C. § 78bb(f)(1). Add to this the Supreme Court's admonition that SLUSA's prohibitions must be "broad[ly]" construed, *Dabit*, 547 U.S. at 86, and it becomes clear that we have no license to draw a line between SLUSA-covered claims that must be dismissed and SLUSA-covered claims that must not be.

In his reply brief, Segal brings to our attention a decision from the Third Circuit that appears to provide some support for his position on this point. "While it may be unwise . . . to set out extraneous allegations of misrepresentations in a complaint," the court says, "the inclusion of such extraneous allegations does not operate to require that the complaint must be dismissed under SLUSA." *LaSala v. Bordier et Cie*, 519 F.3d 121, 141 (3d Cir. 2008). But this language from *LaSala* is not only *dicta*—the court had already resolved the issues at hand—it also contradicts an earlier decision from the Third Circuit. In *Rowinski*, 398 F.3d at 300, the court held that whether an alleged misrepresentation is "an essential legal element" is "immaterial under [SLUSA]." We agree—with *Rowinski*, that is. The terms of SLUSA do not speak to "material," "dependent" or "extraneous" allegations; they speak to covered allegations. A "broad" interpretation of the Act leaves no room for this inquiry—a difficult one at that to implement—which is why we reject it and why (we presume) *Rowinski* rejected any such suggestion earlier.

A similar flaw undermines Segal's argument that SLUSA prohibits claims only if the underlying factual allegations would otherwise give rise to an actionable claim under federal securities laws. That is not what the Act says. And *Dabit*, at any rate, held that SLUSA precludes even state law claims that would not meet the "policy"-based standing limitations the Court has attached to Rule 10b-5, 547 U.S. at 84, which explains why several other circuits have rejected this narrow interpretation. *See, e.g.*, *Anderson v. Merrill Lynch Pierce Fenner & Smith, Inc.*, 521 F.3d 1278, 1285-86 (10th Cir. 2008) (collecting cases).

Segal claims that this approach allows SLUSA to "eliminate[ ] any remedy against an unfaithful fiduciary" short of removing the trustee. Appellant's Letter Br. at 8. "Congress," Segal adds, "could not have intended to prevent trust beneficiaries from pursuing damage claims for mismanagement against trust fiduciaries." *Id.* Yet Congress has done nothing of the sort. "The Act does not deny any individual plaintiff, or indeed any group of fewer than 50 plaintiffs, the right to enforce any state-law cause of action that may exist." *Dabit*, 547 U.S. at 87. SLUSA leaves open many avenues for claimants like Segal to vindicate their rights.

Segal is right that "the plaintiff is the master of the complaint," Appellant's Br. at 10, but that is why he must take responsibility for the allegations included in it. SLUSA may be unforgiving when it applies, but it details in clear language when that is so. It puts claimants to a choice. Here, for example, Segal could have filed an identical complaint on behalf of himself and up to forty-eight others and avoided SLUSA preclusion. Or he could have filed a complaint on behalf of a large class of plaintiffs, so long as he

complied with the requirements of PSLRA. Or he might have been able to press some class action counts—perhaps the breach of contract claim—in a complaint that included no covered allegations. But where, as here, a complaint meets the relatively straightforward requirements of 15 U.S.C. §§ 77p(b), 78bb(f)(1), we must dismiss the action. This approach accords with the "broad construction" presumption in *Dabit*, 547 U.S. at 86, and follows the example of several of our sister circuits. *See, e.g., Anderson*, 521 F.3d at 1286 (10th); *Rowinski*, 398 F.3d at 300 (3d); *Miller*, 391 F.3d at 702 (5th); *Dudek*, 295 F.3d at 879-80 (8th). We also note that Segal may yet bring his individual claims against Fifth Third in state court, as the district court dismissed those claims without prejudice.

III.

For these reasons, we affirm.

APPENDIX B

UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF OHIO, WESTERN DIVISION

Case No. 1:07-cv-348

DANIEL J. SEGAL, *et al*,
Plaintiffs,

vs.

FIFTH THIRD BANK, N.A., *et al*,
Defendants.

March 25, 2008, Decided
March 25, 2008, Filed

OPINION

JUDGES: Sandra S. Beckwith, *Chief Judge, United States District Judge.*

OPINION BY: Sandra S. Beckwith

ORDER

Before the Court is Defendants' motion to dismiss Plaintiff's Amended Class Action Complaint. (Doc. 22) Plaintiffs oppose the motion (Doc. 23), and Defendants have replied. (Doc. 25) Plaintiffs have also filed supplemental authorities in support of their opposition. (Docs. 26, 28)

Plaintiff Daniel Segal is a beneficiary of a fiduciary trust account administered by Defendant Fifth Third

Bank. Defendant First Third Bancorp is the Bank's corporate parent. Segal generally alleges that the Bank breached its fiduciary duties, unjustly enriched itself at his expense, and breached its contract to properly administer the trust account in accordance with fiduciary duty principles.

Segal alleges individual claims on his own behalf, and also brings claims on behalf of two defined Rule 23(b)(3) classes:

> (a) The Beneficiary Class, consisting of all beneficiaries of trust, estate, or other fiduciary accounts for which the Bank or any of its predecessors acted as a trustee, executor, or other form of corporate fiduciary at any time from March 1, 2001 to the present (the "Class Period'); and
>
> (b) The Proprietary Funds Class, consisting of all Beneficiary Class members whose trust, estate, or other fiduciary accounts, for which the Bank or any of its predecessors acted as a trustee, had, directly or indirectly, Proprietary Fund assets allocated to any such account at any time during the Class Period.

(Am. Complaint ¶ 57)

According to the complaint, the Bank administers several types of fiduciary accounts and provides related services, including customized portfolio management. (¶ 10) The Bank failed to exercise good faith by engaging in self-interested or imprudent asset placement decisions for those accounts, primarily the Bank's purchase of proprietary mutual funds. (¶ 8) The Bank also failed to "undertake a trust-by-trust analysis" of each fiduciary account and instead, uniformly decided that trust assets be invested "to the extent feasible, in Fifth Third Funds." (¶¶ 23 &

24) The Bank's prior practice of offering "highly individualized trust administration and asset management services" paid for with fiduciary account fees, was and is being replaced by a standardized portfolio management approach adopted due to various Bank acquisitions and expansions. This standardized, lower-level approach "force-placed" the Bank's fiduciary accounts into the Bank's proprietary funds. This conduct violated the Bank's fiduciary obligations, and disregarded potential adverse tax consequences to the account beneficiaries. (¶¶ 25-28) This misconduct resulted in increased income to the Bank from higher fees charged to the accounts for advisory, administrative, and other services. Investing the fiduciary funds in the Bank's proprietary mutual funds also permitted the Bank to achieve economies of scale in its mutual fund operation that benefitted the Bank, to the detriment of the account beneficiaries. (¶¶ 29-32)

Plaintiff alleges that the objectionable conduct is ongoing, because the Bank is continuing to seek merger acquisitions, which will permit the Bank to further dilute the value of its fiduciary and trust services provided to the account beneficiaries. (¶¶ 37-38)

Jurisdiction is alleged based on diversity between the parties. Segal is an Ohio resident, but he alleges that other members of the putative class are residents of other states. The Bank is a federally chartered bank and Bancorp is an Ohio corporation, both domiciled in Cincinnati. (¶¶ 43-46) Segal alleges supplemental jurisdiction is proper over his individual claims under 28 U.S.C. § 1367. He alleges state law claims for breach of fiduciary duty (Count I), unjust enrichment (Count II), breach of contract premised on the underlying fiduciary instruments

(Count III), and another fiduciary duty claim (Count IV) based on the improper investments of amounts segregated in the accounts to satisfy tax obligations. Segal brings an individual claim for breach of fiduciary duty (Count V), arising out of other specific Bank actions taken as Trustee of the Segal Trusts.

Defendants move to dismiss the complaint. They argue that the class claims are pre-empted by the Securities Litigation Uniform Standards Act of 1998 ("SLUSA"). Alternatively, they argue that each of the state law claims should be dismissed on the merits because, for various reasons, they fail to state claims as a matter of law.

DISCUSSION

1. Standard of Review.

A Rule 12(b)(6) motion operates to test the sufficiency of the complaint. In considering such a motion, the court is required to construe the complaint in the light most favorable to the Plaintiff, and accept as true all well-pleaded factual allegations. *See Scheuer v. Rhodes*, 416 U.S. 232, 236, 94 S. Ct. 1683, 40 L. Ed. 2d 90 (1974), and *Roth Steel Products v. Sharon Steel Corp.*, 705 F.2d 134, 155 (6th Cir. 1983). The court need not accept as true legal conclusions or unwarranted factual inferences. *Lewis v. ACB Business Servs., Inc.*, 135 F.3d 389, 405 (6th Cir. 1998). A court will, though, accept all reasonable inferences that might be drawn from the complaint. *Fitzke v. Shappell*, 468 F.2d 1072, 1076-77 at n.6 (6th Cir. 1972).

As noted in *Mayer v. Mylod*, 988 F.2d 635, 637 (6th Cir. 1993):

> The purpose of Rule 12(b)(6) is to allow a defendant to test whether, as a matter of law, the plaintiff is entitled to legal relief even if everything alleged in the complaint is true. . . . As the court stated in *Conley v. Gibson*, 355 U.S. 41, 45-46, 2 L. Ed. 2d 80, 78 S. Ct. 99 (1957), '[A] complaint should not be dismissed for failure to state a claim unless it appears beyond doubt that the plaintiff can prove no set of facts in support of his claim which would entitle him to relief.'

The Supreme Court's decision in *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 127 S.Ct. 1955, 167 L. Ed. 2d 929 (2007) casts some doubt on these long-standing pleading requirements. While some uncertainty exists in this Circuit on *Twombly*'s reach,[1] *Twombly* requires allegations "plausibly suggesting" the existence of a cognizable claim. *Id.* at 1964. However, *Twombly* does not alter this Court's duty to construe the complaint in the light most favorable to plaintiff.

2. SLUSA Preclusion.

Congress enacted SLUSA in 1998, in response to concerns that state law class actions were being utilized to circumvent the Private Securities Litigation Reform Act ("PSLRA"), enacted in 1995. PSLRA was intended to correct certain perceived abuses of class action securities litigation by, among other things, imposing heightened pleading standards upon class complaints for securities fraud. SLUSA's preclusion provision states:

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[1] *See Weisbarth v. Geauga Park Dist.*, 499 F.3d 538, 541-542 (6th Cir. 2007).

> No covered class action based upon the statutory or common law of any State or subdivision thereof may be maintained in any State or Federal court by any private party alleging—
>
> (1) an untrue statement or omission of a material fact in connection with the purchase or sale of a covered security; or
>
> (2) that the defendant used or employed any manipulative or deceptive device or contrivance in connection with the purchase or sale of a covered security.

15 U.S.C. § 77p(b). The statute also authorizes removal to federal court of covered class actions originally filed in state court. The statute defines a "covered" class action as one brought on behalf of more than 50 people; a "covered" security is one traded nationally, listed on a regulated exchange, and subject to the federal securities laws. In addition to these requirements, a state law class action is precluded if the claims are based on a misrepresentation or omission of material fact (or the use of a deceptive device or scheme) "in connection with" the purchase or sale of a security. *See Dudek v. Prudential Secs., Inc.*, 295 F.3d 875, 879 (8th Cir. 2002).

It must be kept in mind that SLUSA does not actually or completely pre-empt any and all state law claims that may have something to do with the buying and selling of securities. *See Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Dabit*, 547 U.S. 71, 87, 126 S. Ct. 1503, 164 L. Ed. 2d 179 (2006): "SLUSA does not actually pre-empt any state cause of action. It simply denies plaintiffs the right to use the class action device to vindicate certain claims. The Act does not deny any individual plaintiff, or indeed any

group of fewer than 50 plaintiffs, the right to enforce any state-law cause of action that may exist."

A. Misrepresentation or Omission.

Defendants contend that the class claims, while styled under state law, are in essence claims based on misrepresentations or omissions of material facts (or a fraudulent or deceptive scheme) concerning the purchase of Fifth Third mutual funds. They point to Plaintiffs' original complaint in this case, which more squarely alleged a plan or scheme hatched by Defendants to shift fiduciary funds managed by the Bank into Fifth Third "Captive" mutual funds. (*See, e.g.*, Doc. 1, ¶¶ 20-23) Defendants responded to the original complaint with a motion to dismiss based on SLUSA preclusion, pointing out the specific allegations of the original complaint that required that result. (*See* Doc. 12) Plaintiffs elected to amend, and removed most of the direct allegations of "misrepresentations," "omissions," and "schemes." Defendants now argue that Plaintiffs may not "plead around" SLUSA by cloaking their claims with state law titles, as SLUSA is an exception to the well-pleaded complaint rule.

A review of the 92 paragraphs pertaining to the amended complaint's class claims leads to the inescapable conclusion that Plaintiffs' action is premised upon a central factual allegation: that Fifth Third misrepresented or failed to disclose material facts, and/or engaged in a manipulative or deceptive course of conduct, when Fifth Third invested Plaintiffs' fiduciary funds into the Bank's proprietary mutual funds. That allegation is clearly the gravamen of Plaintiffs' state law claims.

Plaintiffs argue that their amended complaint disavows any such contention, because in paragraph 2 they specifically allege that their claims are not based upon any misrepresentation, or failure to disclose, or fraudulent scheme. They suggest they are "only" alleging classic state law claims based on Defendants' alleged breach of fiduciary duties owed to Plaintiffs. The Court disagrees.

The fact that Plaintiffs avoid using the words "misrepresentation" and "omission" does not control the result. It is clear that the court can and should disregard the particular labels or titles Plaintiffs may affix to their claims when determining if SLUSA precludes those claims. It is the substance of the allegations about the defendants' conduct that is key to this determination. *See, e.g., Professional Mgmt. Assocs. Employees Profit Sharing Plan v. KPMG LLP*, 335 F.3d 800, 803 (8th Cir. 2003) [holding that a negligence claim is "essentially" a precluded securities fraudclaim]; *Dudek v. Prudential Secs.*, 295 F.3d 875 (8th Cir. 2002), finding SLUSA precluded claims based on placement of tax-deferred annuities in plaintiffs' retirement accounts, and which alleged that the defendant-insurer benefitted from resulting higher fees and costs incurred.

Here, similarly, Plaintiffs allege that increased account fees resulted from Defendants' "asset allocation" decisions (¶ 7); that the bank enriched itself by making those "asset allocations" (¶ 9); and that the Bank engaged in self-dealing by investing in its proprietary funds rather than "independently analyz[ing] and monitor[ing] trust assets." (¶ 14) Whatever the state law mold these allegations may also fit, it is inescapable that the key conduct underlying all the claims is the Bank's misrepresentations

or omissions about, or deceptive scheme involving, the Bank's purchase of its proprietary mutual funds with fiduciary assets. All of the class allegations of self-dealing, breach of duty, or unjust enrichment, flow from that central fact. While the alleged misconduct may have breached a contract or a fiduciary duty, it is also a "quintessential example of a fraudulent omission of a material fact under the federal securities laws." *Felton v. Morgan Stanley Dean Witter & Co.*, 429 F. Supp. 2d 684, 693 (S.D.N.Y. 2006).

Several district courts that have addressed almost identical allegations against different banks and investment firms have reached the same conclusion. *See Kutten v. Bank of America, N.A.*, 2007 U.S. Dist. LEXIS 63897 (E.D. Mo., August 29, 2007), finding SLUSA precluded breach of fiduciary duty and unjust enrichment claims against the bank; *Siepel v. Bank of America*, 239 F.R.D. 558(E.D. Mo. 2006) [same]; *Spencer v. Wachovia Bank, N.A.*, 2006 U.S. Dist. LEXIS 52374 (S.D. Fla., May 10, 2006) [same]; *Rabin v. JP Morgan Chase Bank, N.A.*, 2007 U.S. Dist. LEXIS 57437 (N.D. Ill. Aug. 3, 2007) [same].

Plaintiffs have submitted an unpublished order from the Southern District of New York in *Hughes v. LaSalle Bank*, where the court concluded that SLUSA does not preclude claims for breach of fiduciary duty, tortious interference and unjust enrichment. (*See* Doc. 26, Exhibit 2) The district court's order states that the court was responding to the Second Circuit's remand of the case for an evidentiary hearing on subject matter jurisdiction over the plaintiffs' original complaint. According to the district court order, the Second Circuit posed questions about both the existence of diversity and whether SLUSA preclusion might apply. This Court

is not bound by that district court's conclusion about whether SLUSA applies to the pleadings and parties before the court in that case. There is no definitive guidance from the Sixth Circuit on this question. The Court finds the reasoning set forth in *Kutten*, *Siepel*, *Spencer*, and *Rabin* to be a correct application of SLUSA preclusion to the facts and claims alleged here.

In addition, two district courts within this Circuit have followed similar reasoning to apply SLUSA preclusion in slightly different factual settings. *Beary v. Nationwide Life Ins. Co.*, 2007 U.S. Dist. LEXIS 83137 (S.D. Ohio, September 17, 2007) (Sargus, J.) involved breach of fiduciary duty and unjust enrichment claims brought by retirement and deferred compensation plans against Nationwide, which sponsored those plans. Nationwide had negotiated revenue sharing agreements with various mutual fund companies in return for investing the plans' assets in the mutual funds. The plaintiff plans alleged that Nationwide breached its fiduciary duty to them by enriching itself with the revenue sharing fees, resulting in loss of value to the plans. The district court held: "Although Plaintiff does not specifically use the words 'untrue statement' or 'omission' in the Complaint, the substance of Plaintiff's claim is that Nationwide misrepresented a relationship with Investment Advisors or, at a minimum, omitted to disclose material facts about the relationship. In the Court's view, Plaintiff's allegations fall within the scope of SLUSA." *Id.* at *11.

In *Horattas v. Citigroup Financial Markets Inc.*, 532 F. Supp. 2d 891, 2007 U.S. Dist. LEXIS 67411 (W.D. Mich., September 12, 2007), the district court held SLUSA precluded a state law class action

brought against the investment services provider to a cemetery owner. The owner allegedly depleted and absconded with millions of dollars of funds held in irrevocable endowment care accounts for the benefit of the cemeteries, looting the cemeteries' trust assets. The district court concluded that SLUSA precluded the state law class claims against the investment advisor to the owner, finding that they alleged a fraudulent scheme concerning covered securities. The allegations of negligence or "imprudent investment" did not immunize the class claims from preclusion.

The same result applies here. Plaintiffs' allegation that Fifth Third breached its fiduciary duty, or was unjustly enriched as a result of the investments in Fifth Third mutual funds, does not protect their class claims from SLUSA.

B. "In Connection With" Covered Securities.

Plaintiffs do not dispute that Fifth Third's proprietary mutual funds are covered securities for SLUSA purposes. They argue this is irrelevant, because Defendants' conduct was not "in connection with" the purchase or sale of those securities. Plaintiffs argue they had no knowledge of the purchases and made no purchases themselves, leaving all asset allocation decisions to the Defendants. They also argue that their claims are not based on the purchase of the mutual funds per se, but upon the breach of fiduciary duty inherent in Fifth Third's decision to purchase those funds.

This argument is foreclosed by *Dabit*. There, the Supreme Court held that SLUSA's phrase "in connection with" must be construed consistently with settled case law construing the same phrase used in Section 10(b) and Rule 10b-5. While standing to bring

a private suit under those authorities is limited to purchasers and sellers, limitation was based on policy considerations raised by permitting any private right of action under the securities laws. *See Dabit*, 547 U.S. at 84 (discussing *Blue Chip Stamps v. Manor Drug Stores*, 421 U.S. 723, 95 S. Ct. 1917, 44 L. Ed. 2d 539 (1975)). The Section 10(b) standing limitation does not mandate imposing a limiting construction of the phrase "in connection with" the purchase or sale of securities. Citing its prior cases,[2] the Court noted it is enough for 10(b) and 10b-5 actions that the fraud "coincide with a securities transaction—whether by the plaintiff or by someone else." *Id.* at 85. The Court then noted that Congress "could hardly have been unaware" of this broad construction when it chose to use the same phrase in SLUSA. *Id.* Thus the Court reversed the Second Circuit's decision finding that the plaintiffs—brokers who were fraudulently induced to retain or delay selling securities, and were not purchasers or sellers—fell outside of SLUSA's preclusive scope.

Plaintiffs' reliance on pre-*Dabit* decisions such as *Norman v. Salomon Smith Barney, Inc.*, 350 F.Supp.2d 382 (S.D.N.Y. 2004) is therefore misplaced. Norman was clearly driven by the fact that plaintiffs were not purchasers or sellers of securities.

Plaintiffs also cite *LaSala v. UBS*, 510 F.Supp.2d 213 (S.D.N.Y. 2007), a post-*Dabit* opinion finding that a claim against UBS for aiding and abetting a breach of fiduciary duty was not precluded by SLUSA. The specific allegation against UBS in that case, as the district court's opinion makes clear, was the fact that

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[2] *SEC v. Zandford*, 535 U.S. 813, 122 S. Ct. 1899, 153 L. Ed. 2d 1 (2002), and *United States v. O'Hagan*, 521 U.S. 642, 117 S. Ct. 2199, 138 L. Ed. 2d 724 (1997).

UBS received money from two other private banks in Switzerland, and then transferred those funds to different accounts at the direction of the account holders. The holders had perpetrated a massive fraudulent stock scheme and the funds in question were allegedly proceeds of illegal stock sales. But the allegations against UBS were limited to the transfer of money from one account to another account. The district court noted that if UBS had facilitated the sale of the stock, the result would likely have been different. *Id.* at 243-244. The facts at issue in that case clearly differentiate it from the facts underlying Plaintiffs' claims in this case.

Plaintiffs also rely on *Burns v. Prudential Securities, Inc.*, 218 F.Supp.2d 911 (N.D. Ohio 2002), where the district court found that SLUSA did not apply to a claim for breach of fiduciary duty against a broker who sold the securities held in plaintiffs' accounts without their notice or consent. There was no allegation that the broker acted fraudulently, as the district court noted he sold the holdings because he was concerned that the market was about to crash. (It did not crash, but kept rising.) Plaintiffs alleged that Prudential, the broker's employer, failed to disclose material facts and made false statements about the broker's actions after the fact. The district court found the claims were not pre-empted, because the false statement or omissions took place after, and independently of, the broker's sales, and had no relationship to his decision to sell. The claims against Prudential had nothing to do with the securities in question, but rather were premised on Prudential's failure to honestly and accurately deal with plaintiffs about the situation caused by their broker. Thus the claims were not "in connection with" the sale of the securities.

Plaintiffs allegations here are far different, and distinguish the result in *Burns*. Plaintiffs allege a course of fraudulent conduct involving Fifth Third's decision to purchase Fifth Third mutual funds, a course of conduct they allege is continuing with every acquisition or merger by Fifth Third.

For these reasons, the Court concludes that the class claims alleged in Plaintiffs' Amended Complaint are precluded by SLUSA, and are therefore dismissed with prejudice. Given this result, the Court does not reach Defendants' alternative arguments concerning the merits of the state law claims.

Counts I through IV are also brought by Daniel Segal individually, and Count V is exclusively Segal's individual claim against the Defendants. His individual claims are not precluded by SLUSA. However, Segal's allegations make clear that diversity is lacking between Segal and the Defendants. The Court will therefore dismiss Segal's individual claims without prejudice.

CONCLUSION

Counts I through IV brought on behalf of the defined class are dismissed with prejudice because they are precluded by SLUSA. Segal's individual claims in Counts I through V are dismissed without prejudice.

SO ORDERED.

THIS CASE IS CLOSED.

Dated: March 25, 2008

/s/ Sandra S. Beckwith
Sandra S. Beckwith, Chief Judge
United States District Court

APPENDIX C

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

No. 08-3576

DANIEL J. SEGAL, on behalf of himself, his minor children and all others similarly situated,
Plaintiff-Appellant,

v.

FIFTH THIRD BANK, N.A., *et al.*,
Defendants-Appellees.

December 16, 2009, Filed

OPINION

JUDGES: BEFORE: SUTTON and GRIFFIN, *Circuit Judges*; and LIOI,* *District Judges*.

ORDER

The court having received a petition for rehearing en banc, which was circulated to all active judges of this court, none of whom requested a vote on the suggestion for rehearing en banc, the petition for rehearing has been referred to the original panel.

The panel has further reviewed the petition for rehearing and concludes that the issues raised in the petition were fully considered upon the original submission and decision of the case. Accordingly, the petition is denied.

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* Hon. Sara E. Lioi, United States District Judge for the Northern District of Ohio, sitting by designation.

Supreme Court, U.S.
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(2)

No. 09-1128

In the Supreme Court of the United States

DANIEL J. SEGAL,

Petitioner,

v.

FIFTH THIRD BANK, N.A., et al.,

Respondents.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

BRIEF IN OPPOSITION

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Question Presented

Whether the Court should grant the Petition when the Sixth Circuit's Opinion affirming the dismissal of Petitioner's Amended Complaint as preempted by the Securities Litigation Uniform Standards Act of 1998: (a) faithfully applied the language of the statute and established precedent from this Court; (b) is entirely consistent with a well-established body of cases confronting the same and similar issues from various District and Circuit Courts of Appeals; and (c) does nothing to interfere in state trust law.

Table of Contents

Question Presented i

Table of Contents ii

Table of Authorities iv

Introduction 1

Statement 3

I. Reasons for Denying the Petition 6

A. The Opinion is Entirely Consistent with Binding Precedent from this Court and Does Not Expand the Well-Settled Scope of SLUSA. 7

B. There is No Circuit Split Related to the Application of *Dabit* and SLUSA Preemption that Could Justify Granting the Petition. . 14

1. Contrary to Petitioner's Claim, There is No Split Among the Circuits Concerning Whether Detrimental Reliance is an Element of SLUSA Preemption. 14

2. There is No Circuit Split Regarding a Plaintiff's Right to Artfully Plead Around SLUSA 20

3. This Case Does Not Present a Circuit Split on Whether SLUSA Preempts Individual Claims or Entire Actions .. 23

C. The Sixth Circuit's Decision Does Not Interfere With State Trust Law 26

Conclusion 28

Table of Authorities

Cases

Anderson v. Merrill Lynch, Pierce, Fenner & Smith, Inc.,
521 F.3d 1278 (10th Cir. 2008) 15, 23

Arnold v. Bank of America, N.A.,
129 S.Ct. 598 (2008) 12, 13

Beckett v. Mellon Investor Servs., LLC,
No. 06-36044, 2009 U.S. App. LEXIS 10335 (9th Cir. May 14, 2009) 21

Behlen v. Merrill Lynch,
311 F.3d 1087 (11th Cir. 2002) 21

Blue Chip Stamps v. Manor Drug Stores,
421 U.S. 723, 44 L. Ed. 2d 539, 95 S. Ct. 1917 (1975) 8, 9

Dabit v. Merrill Lynch, Pierce, Fenner & Smith, Inc.,
395 F.3d 25 (2d Cir. 2005) 8

Dudek v. Prudential Sec., Inc.,
295 F.3d 875 (8th Cir. 2002) 20

Felton v. Morgan Stanley Dean Witter & Co.,
429 F. Supp. 2d 684 (S.D.N.Y. 2006) 21

Gavin v. AT&T Corp.,
464 F.3d 634 (7th Cir. 2006) 17

Green v. Ameritrade,
279 F.3d 590 (8th Cir. 2002) 15, 16, 17

In re Lord Abbett Mut. Funds Fee Litig.,
463 F. Supp. 2d 505 (D.N.J. 2006) 25

In re Lord Abbett Mut. Funds Fee Litig.,
553 F.3d 248 (3d Cir. 2009) 24

Kutten v. Bank of America,
530 F.3d 669 (8th Cir. 2008), *cert. denied Arnold v. Bank of America, N.A.*, 129 S.Ct. 598, 172 L.Ed.2d 456, 77 USLW 3130 (Nov. 17, 2008) 2, 12, 13, 17

LaSala v. Bordier et Cie,
519 F.3d 121 (3d Cir. 2008) 19

Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Dabit,
547 U.S. 71 (2006) ..... *passim*

Miller v. Nationwide Life Ins. Co.,
391 F.3d 698 (5th Cir. 2004) 20, 23

Proctor v. Vishay Intertechnology, Inc.,
584 F.3d 1208 (9th Cir. 2009) 18, 25

Rabin v. JP Morgan Chase Bank, N.A.,
No. 06 C 5452, 2007 WL 2295795 (N.D. Ill. Aug. 3, 2007) 12

Ring v. AXA Fin., Inc.,
483 F.3d 95 (2d Cir. 2007) 18

Rowinski v. Salomon Smith Barney Inc.,
398 F.3d 294 (3d Cir. 2005) 20

Rubin v. Reinhard,
08cv1820-WQH-JMA, 2009 U.S. Dist. LEXIS 25543 (S.D. Cal. Mar. 25, 2009) 25

SEC v. Zandford,
535 U.S. 813 (2002) 10, 11, 22

Siepel v. Bank of America, N.A.,
526 F.3d 1122 (8th Cir. 2008) . 12, 13, 16, 17, 20

Sofonia v. Principal Life Ins. Co.,
465 F.3d 873 (8th Cir. 2006) 17

Spencer v. Wachovia Bank, N.A.,
No. 05-81016, 2006 WL 3408043 (S.D. Fla. May 10, 2006) 13

Stoneridge Inv. Partners, LLC v. Scientific-Atlanta, Inc.,
552 U.S. 148 (2008) 16

Stoody-Broser v. Bank of America N.A.,
No. C 08-02705 JSW, 2009 WL 2707393 (N.D. Cal. Aug. 25, 2009) 12

U.S. Mortgage, Inc. v. Saxton,
494 F.3d 833 (9th Cir. 2007) 21, 22, 27

U.S. v. O'Hagan,
521 U.S. 642 (1997) 10

Wells Fargo Bank, N.A. v. Superior Court of San Francisco County,
71 Cal.Rptr.3d 506 (Cal. App. 2008) 13

Statutes

15 U.S.C. § 77p(b) 8

15 U.S.C. § 78bb(f)(5)(B)(i)(I) 25

Rules

Sup. Ct. R. 10 1

Introduction

The Sixth Circuit determined that Petitioner's Amended Complaint was preempted by the Securities Litigation Uniform Standards Act of 1998 ("SLUSA"). The Petitioner asks this Court to review that decision but fails to present any "compelling reasons" that would support granting his Petition for a Writ of Certiorari ("Petition") should be granted. *See* Sup. Ct. R. 10.

The Petition mischaracterizes the Sixth Circuit's decision as a dramatic and impermissible expansion of this Court's decision in *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Dabit*, 547 U.S. 71 (2006). Petitioner claims that the Sixth Circuit extended the scope of SLUSA beyond the intent of Congress and to preempt any state law claim that touches a security in any way. But this is not remotely what the Sixth Circuit said. Rather, the Sixth Circuit applied the language of the statute, stating that any alleged wrongdoing must be "in connection with" the purchase or sale of a security; further stated that *Dabit* teaches that the "in connection with" clause of the statute must be construed "flexibly"; and concluded that the "in connection with" standard was met where all of the wrongdoing alleged in the Amended Complaint "depends" on securities transactions. The Sixth Circuit's decision did not expand the scope of preemption at all; instead, it simply applied the statute and settled law to the allegations in Petitioner's Amended Complaint. This limited decision does not require or justify this Court's review.

Petitioner argues that the Opinion establishes a split among Circuit Court of Appeals on a number of

issues. But Petitioner's description of the post-*Dabit* SLUSA jurisprudence and scope bears little resemblance to reality. First, the Petition fails to disclose that the Opinion joined a long and unbroken line of similar cases; numerous courts have held that SLUSA preempts a claim by trust beneficiaries alleging improper investment in affiliated mutual funds. The Court declined to review one of these decisions just eighteen months ago. *Kutten v. Bank of America*, 530 F.3d 669 (8th Cir. 2008), cert. denied *Arnold v. Bank of America, N.A.*, 129 S.Ct. 598, 172 L.Ed.2d 456, 77 USLW 3130 (Nov. 17, 2008) (NO. 08-333). Second, in attempting to manufacture a circuit split, the Petitioner misstates the holdings of numerous decisions which, when described accurately, fully support the Sixth Circuit's decision and offer no evidence of conflict among the circuits on an important matter.

Finally, Petitioner claims that the Opinion improperly infringes on state trust law and leaves Petitioner without a remedy for Fifth Third's alleged wrongdoing. In *Dabit*, this Court rejected the argument that SLUSA was an improper interference on state law. Moreover, as recognized by the Court in *Dabit* and the lower courts in this matter, SLUSA does not actually preempt any claim, including any of Petitioner's potential claims; SLUSA only restricts the use of the class action procedural device regarding certain claims in connection with securities transactions. Even if class claims in a complaint are preempted by SLUSA, Plaintiffs like Petitioner have multiple paths to pursue a possible remedy under *Dabit* and the Sixth Circuit's Opinion. As this is an issue already settled by the Court in *Dabit*, there is no reason to review the Opinion.

Respondent respectfully requests that the Court deny the Petition.

Statement

Petitioner Daniel J. Segal ("Segal" or "Petitioner") is or was a beneficiary of certain trusts. *See* R. 17, Amended Complaint ¶ 45. Respondent Fifth Third Bancorp ("Respondent," "Fifth Third" or "the Bank") formerly served as the trustee of those trusts. The Bank invested a portion of the trust funds in various mutual funds affiliated with Fifth Third.

On May 1, 2007, Daniel J. Segal filed a Class Action Complaint on behalf of himself, his minor children, and two putative classes.[1] R. 1.[2] Fifth Third moved to dismiss the complaint on the basis of SLUSA preemption. In doing so, Fifth Third highlighted the many allegations of misrepresentations and omissions of material fact that supported SLUSA preemption. Alerted to the deficiencies of the complaint, and in a further attempt to avoid SLUSA, Petitioner filed an Amended Class Action Complaint (the "Amended Complaint"). R. 17. While Petitioner edited or removed certain words and phrases contained in the

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[1] Because it helps to reveal the true nature of the claims asserted in this action, Petitioner seeks to downplay or hide the original complaint filed in this case. To do so, Petitioner begins his discussion of the procedural history of this action with the filing of the Amended Complaint and then defines the Amended Complaint as "Complaint." Pet 6, *see also* Pet. 8 (removing the word "Amended" from the quotation from the Opinion)

[2] References to "R. __" shall refer to the District Court docket, 1:07-cv-348 (S.D. Ohio).

original complaint, the causes of action and gravamen of the Amended Complaint remained the same.[3]

The Amended Complaint asserted state law claims for breach of contract, unjust enrichment, and breaches of fiduciary duties. According to its terms, the gravamen of the Amended Complaint "is that the defendants did not deal honestly, ethically, fairly, and/or in good faith with Fifth Third's beneficiaries." R. 17, Am. Compl. ¶ 6. The alleged wrongdoing described in the Amended Complaint specifically relates to Fifth Third's investing the trust funds it managed in its affiliated mutual funds.

For example, the Amended Complaint alleges that Fifth Third offered and promoted individualized trust administration. *See e.g.* R. 17, Am. Compl. ¶¶ 10, 25, 27-29, 35. Petitioner alleges that instead of making appropriate investments for each trust and providing individualized service, that Fifth Third instead misled Petitioner by only providing standardized investment of trust accounts in the Fifth Third Funds. *Id.*

Petitioner also alleges that Fifth Third breached its state-law duty of loyalty by placing its own interests ahead of the beneficiaries when investing in the Fifth Third Funds. *See e.g.* R. 17, Am. Compl. ¶ 21. Plaintiff also claims that by investing fiduciary accounts in the Fifth Third Funds, Fifth Third improperly collected fees for both the administration of the fiduciary

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[3] *See* D. Ct. Order, Pet. App. 18a (Upon Fifth Third's motion to dismiss the original complaint, "Plaintiffs elected to amend, and removed most of the direct allegations of 'misrepresentations,' 'omissions,' and 'schemes.'")

accounts and the administration of the Fifth Third Funds (referred to by Petitioner as "double dipping") again, in violation of state law. *See* R. 17, Am. Compl. ¶ 30.

Fifth Third moved to dismiss the Amended Complaint on the basis of SLUSA preemption. R. 22. On March 25, 2008, the District Court dismissed the class claims with prejudice. R. 30, District Court Order, Pet. App. 12a-25a (hereafter "D. Ct. Order"). The District Court found that the class claims in the Amended Complaint were based on a central factual allegation: "that Fifth Third misrepresented or failed to disclose material facts, and/or engaged in a manipulative or deceptive course of conduct, when Fifth Third invested Plaintiffs' fiduciary funds into the Bank's proprietary mutual funds. That allegation is clearly the gravamen of Plaintiffs' state law claims." D. Ct. Order, Pet. App. 18a. The District Court appropriately looked past the labels utilized by Plaintiff to determine the true gravamen of the allegations. D. Ct. Order, Pet. App. 19a. The District Court held that this alleged conduct was "in connection with" the purchase of Fifth Third mutual funds. D. Ct. Order, Pet. App. 25a. Because the allegations of the Amended Complaint showed that diversity jurisdiction was lacking on the individual claims, the District Court dismissed the Petitioner's individual claims without prejudice. *Id.*

On appeal, the Sixth Circuit affirmed the District Court. Opinion, Pet. App. 1a-11a. The Opinion found that the Amended Complaint alleges misrepresentations, material omissions, and manipulation, and identified numerous examples of each. Opinion, Pet. App. 5a. The Opinion also held

that these allegations not only "coincide" – the operative word from *Dabit* for analyzing the "in connection with" prong of SLUSA – with securities transactions, but that the claims in the Amended Complaint "depend" on the purchase of the Fifth Third mutual funds. Opinion, Pet. App. 6a.

The Opinion below rejected many of the arguments Petitioner asserts here. Specifically, the Opinion held that the applicability of SLUSA does not turn on the presence (or absence) of any specific prohibited word, but rather on whether "the complaint covers the prohibited theories, no matter what words are used (or disclaimed) in explaining them." Opinion, Pet. App. 7a-8a. The Opinion, relying on *Dabit*, also rejected Petitioner's contention that SLUSA prohibits claims only if the allegations would otherwise give rise to an actionable federal securities claim. Opinion, Pet. App. 8a. Finally, the Opinion overruled Petitioner's claim that applying SLUSA to his Amended Complaint improperly eliminated any remedy beneficiary might have against a fiduciary like Fifth Third. Opinion, Pet. App. 10a.

After the Opinion was issued, Petitioner requested en banc reconsideration by the Sixth Circuit. That request was denied. Pet. App. 26a.

I. Reasons for Denying the Petition

The decision below applied the plain text of the SLUSA statute and this Court's recent decision in *Dabit* to the specific factual allegations in the Amended Complaint. In doing so, the Sixth Circuit joined numerous other courts that have found claims arising in the exact same context – claims concerning

the investment of trust assets in that financial institution's affiliated mutual funds – to be preempted by SLUSA. By any measure, the relevant legal issues are well settled. The Sixth Circuit's (correct) application of these settled principles does not present a compelling or important issue for the Court to review.

A. The Opinion is Entirely Consistent with Binding Precedent from this Court and Does Not Expand the Well-Settled Scope of SLUSA.

In 1995, Congress became concerned with "perceived abuses of the class-action vehicle in litigation involving nationally traded securities." *Dabit*, 547 U.S. at 81. In response Congress passed the Private Securities Litigation Reform Act ("PSLRA"), which imposes heightened pleading requirements upon, and other procedures concerning such actions. The passage of the PSLRA had an unintended consequence, as some members of the plaintiffs' bar began to avoid the federal forum altogether and file actions under state law. *Dabit*, 547 U.S. at 82. To close this loophole, and to "prevent certain State private securities class action lawsuits alleging fraud from being used to frustrate the objectives" of the PSLRA, Congress enacted SLUSA. *Id.*

SLUSA preemption applies when: (1) the complaint presents a covered class action, which means it involves more than fifty members; (2) the claims are based on state law; (3) the action involves a "covered security"; and (4) the complaint alleges "an untrue statement or omissions of a material fact in connection

with" the purchase or sale of a security or a "manipulative device or contrivance in connection with" purchasing or selling a covered security. 15 U.S.C. § 77p(b); Opinion, Pet. App. 4a; Pet. 13. That SLUSA applies on a showing of the foregoing is undisputed; both the Petitioner and the Opinion below refer to the exact same factors. *Id.*

As to these factors in the present case, the Opinion correctly notes that the first three are not in dispute; even Petitioner agrees that those factors are met in this case. Opinion, Pet. App. 4a-5a. Only the fourth factor – whether the Amended Complaint contains allegations of misrepresentations, omissions of material fact, or manipulation in connection with the purchase of the Fifth Third funds – is at issue. *Dabit* controls the analysis of this final factor in the SLUSA analysis.

In *Dabit*, a former Merrill Lynch stock broker filed a state-law class claim alleging that his employer fraudulently caused him and others to hold onto overvalued securities. 547 U.S. at 75. The Second Circuit held that the claim was not preempted, concluding that the standing limitations placed on a private securities action plaintiff in *Blue Chip Stamps v. Manor Drug Stores*, 421 U.S. 723, 44 L. Ed. 2d 539, 95 S. Ct. 1917 (1975), form the outer bounds of SLUSA preemption. *Dabit v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 395 F.3d 25 (2d Cir. 2005). Thus, because the class in *Dabit* consisted of "holders" of securities, but not purchasers or sellers that might have standing to pursue a § 10(b) claim, the Second Circuit held that the action fell outside SLUSA preemption. *Id.*

This Court reversed, holding that "in connection with" must be given a "broad interpretation" consistent with prior consideration of that phrase by the Court. *Dabit*, 547 U.S. at 85. In doing so, the Court rejected an alternate construction of "in connection with" that would have limited the scope of SLUSA preemption, as the Second Circuit did, based on the elements of a private right of action under § 10(b) of the Exchange Act of 1934 and Rule 10b-5. *Id.* at 84-86. The Court held that the policy-based standing limitations from *Blue Chip Stamps* did not limit the scope of SLUSA's preemptive effect. Noting that the Supreme Court's interpretation of "in connection with" was well established at the time SLUSA was enacted, in *Dabit* this Court stated, "Congress can hardly have been unaware of the broad construction adopted by both this Court and the SEC when it imported the key phrase – 'in connection with the purchase or sale' – into SLUSA's core provision." *Id.* at 85. The Court also held that interpreting SLUSA narrowly would undercut the effectiveness of the PSLRA and run contrary to SLUSA's stated purpose. *Id.* at 86.

In light of the Court's decision in *Dabit*, Petitioner's principal legal contentions are simply unsupportable. For example, Petitioner claims that SLUSA only preempts claims resting on allegations of deception inducing a particular investment decision, or claims concerning the purchase or sale of a security in reliance on misrepresentations, omissions, or acts of deception or manipulation. *See, e.g.*, Pet. 14, 16, 18-27. But the fraud alleged in a plaintiff's complaint does not have to induce a purchase or be relied on by the plaintiff; in fact, the plaintiff does not have to make the securities purchase at all (in reliance on the

alleged fraud or not). *Id.* at 84-88. As this Court unequivocally stated in *Dabit*:

> Under our precedents, it is enough that the fraud alleged "coincides" with a securities transaction - whether by the plaintiff or by someone else. . . . The requisite showing, in other words, is 'deception in connection with the purchase or sale of any security,' not deception of an identifiable purchaser or seller.

Id. at 85 (citing *U.S. v. O'Hagan*, 521 U.S. 642, 658 (1997)).

Moreover, Petitioner contends that SLUSA preclusion only applies when a defendant's conduct would constitute a violation of securities law. Pet. 14. But this is not the law, and Petitioner offers no citations that suggest otherwise. Rather, *Dabit* undeniably confirms that the scope of SLUSA preemption is broader than a claim under § 10(b), for in *Dabit* the plaintiffs were holders, and could not meet the purchaser or seller requirement to bring a private action under federal securities laws. *Dabit*, 547 U.S. at 84-87.

SEC v. Zandford, 535 U.S. 813 (2002) confirms that the Sixth Circuit applied the "in connection with" doctrine in a manner entirely consistent with this Court's prior interpretations of that phrase. In *Zandford*, the SEC brought a civil action against a broker for violations of § 10(b) and Rule 10b-5. The broker had sold all of his clients' securities and diverted the sale proceeds to his own accounts. The district court entered judgment against the broker, but the Fourth Circuit reversed, agreeing with the broker

that his actions were not "in connection with" the sale of his clients' securities. Instead, the Fourth Circuit held that the broker's scheme to steal his client's money was only "incidental" to any sale of securities. *Id.* at 817-18.

This Court unanimously reversed and held that the broker engaged in an ongoing scheme to defraud the clients and that the fraud "coincided with the sales themselves" and "each sale was made to further [the broker's] fraudulent scheme." *Id.* at 820. The Court found that the fact that clients did not rely on the fraud was irrelevant to whether the "in connection with" requirement was not for the purpose of SLUSA preemption. Indeed, the clients did not even know about the scheme at the time of the securities sales, and yet the Court held that each transaction was "deceptive because it was neither authorized by, nor disclosed to" the brokers clients. *Id.* at 821. The Court therefore found that the "in connection with" requirement was satisfied.

In the Opinion below, the Sixth Circuit applied this Court's clear interpretation of the "in connection" with" requirement and found that it was satisfied based on Petitioner's Amended Complaint. Not only did the alleged wrongdoing "coincide" with the purchase of the Fifth Third mutual funds, the Sixth Circuit stated, but the causes of action "depend" on such purchases. Opinion, Pet. App. 6a. This conclusion was correct. Each alleged violation of law asserted by Petitioner was consummated with the purchase of Fifth Third mutual funds. When Petitioner alleges improper standardized investment strategies, the standardized investment he complains of involved the purchase of Fifth Third funds. When Petitioner alleges breaches

of loyalty, the alleged disloyal act was the Bank's purchase of the Fifth Third mutual funds. The examples are numerous and extensively detailed in the briefs below.

For purposes of Petitioner's application for review, it is abundantly clear from the Opinion below that the Sixth Circuit did not attempt to or actually expand the scope of SLUSA preemption. Indeed, because the alleged wrongdoing "depended" on securities transactions – and did not simply "coincide" with such purchases which would have been sufficient – the Opinion below did not expand preemption under SLUSA but rather fell well within the scope of preemption already firmly established by this Court. Thus, the Opinion below represents a faithful and straightforward application of binding precedent from this Court.

Many other courts have applied the Court's settled precedent with respect to SLUSA concerning claims that a financial institution – while serving as a corporate fiduciary of a trust – improperly invested the trust corpus in mutual funds affiliated with that same financial institution. The courts that have considered the issue have rejected the exact contentions advanced in the Petition and have dismissed the claims on the basis of SLUSA preemption. *See Kutten v. Bank of America,* 530 F.3d 669 (8th Cir. 2008), cert. denied *Arnold v. Bank of America, N.A.*, 129 S.Ct. 598, 172 L.Ed.2d 456, 77 USLW 3130 (Nov. 17, 2008) (NO. 08-333); *Siepel v. Bank of America, N.A.*, 526 F.3d 1122 (8th Cir. 2008); *Stoody-Broser v. Bank of America N.A.*, No. C 08-02705 JSW, 2009 WL 2707393 (N.D. Cal. Aug. 25, 2009); *Rabin v. JP Morgan Chase Bank, N.A.*, No. 06 C 5452, 2007 WL 2295795 (N.D. Ill. Aug. 3,

2007); *Spencer v. Wachovia Bank, N.A.*, No. 05-81016, 2006 WL 3408043 (S.D. Fla. May 10, 2006); *Wells Fargo Bank, N.A. v. Superior Court of San Francisco County*, 71 Cal.Rptr.3d 506 (Cal. App. 2008).

For example, the *Siepel* plaintiffs alleged that "the Bank purchased securities as a trustee on their behalf without disclosing that the Bank profited from the transactions." 526 F.3d at 1127. They argued that SLUSA did not apply because "the non-disclosure did not relate to a decision whether to purchase a security." *Id.* Citing *Dabit*, the Eighth Circuit concluded that the alleged nondisclosures "clearly coincided with the Bank's purchase of shares in the Nations Funds mutual fund. Given the identical coverage of Section 10(b) and SLUSA, it follows that the Plaintiffs' state-law claims are preempted." *Id.*

The claims in *Kutten* were "nearly identical" to those advanced in *Siepel*. *See Kutten*, 530 F.3d at 669-71. So too are Petitioner's claims in the Amended Complaint, as described in Fifth Third's Motion to Dismiss. *See* R. 22. Notably, this Court found no compelling reason to review the decision in *Kutten*. *See Arnold v. Bank of America, N.A.*, 129 S.Ct. 598. Other than cases adding to the list of courts that have found such claims preempted under SLUSA, no significant legal developments have taken place since the Court denied the petition for certiorari in *Kutten*.

The decisions of these other courts demonstrate that the Sixth Circuit merely applied settled law in dismissing Petitioner's class claims on the basis of SLUSA preemption. These decisions further prove that Petitioner's principal legal arguments lack support.

Because the Opinion decided the exact issue the same way as numerous other courts, and because the Court has already ruled that it would not review a decision presenting the same factual and legal issues, the Petition should be denied.

B. There is No Circuit Split Related to the Application of *Dabit* and SLUSA Preemption that Could Justify Granting the Petition

Petitioner argues that the Opinion creates a circuit split on three separate issues. Petitioner's attempt to demonstrate conflict among the circuits is based on inaccurate descriptions of case holdings and the refusal to acknowledge the existence of other cases whose holdings are consistent with the Opinion. Any reasonable review of the authorities cited in the Petition reveals no split among the circuits.

1. Contrary to Petitioner's Claim, There is No Split Among the Circuits Concerning Whether Detrimental Reliance is an Element of SLUSA Preemption.

Petitioner first claims that the Sixth Circuit's Opinion conflicts with circuits that find preemption only where a plaintiff detrimentally has relied on misrepresentations, omissions, or manipulations of the defendant, or there is a causal connection between the alleged fraud and a securities transaction. As discussed above, this argument is foreclosed by *Dabit*. *See Dabit*, 547 U.S. at 85 ("it is enough that the fraud alleged "coincides" with a securities transaction - whether by the plaintiff or by someone else").

Contrary to Petitioner's claim, there is no circuit split on this issue.

In the Opinion, the Sixth Circuit addressed Petitioner's contention, observing that the SLUSA statute did not contain a reliance requirement. Pet. App. 10a. In doing so, the Sixth Circuit joined a long list of decisions specifically rejecting the proposition that reliance, or some other element of a private right of action under § 10(b), must be shown for SLUSA to apply. *See, e.g., Anderson v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 521 F.3d 1278, 1285-86 (10th Cir. 2008) (collecting cases rejecting Petitioner's argument). Petitioner can not meaningfully explain why his argument is correct when so many courts have found reliance not to be an element of SLUSA and when numerous courts have determined that claims by trust beneficiaries arising in the exact context as the present are preempted.

Moreover, Petitioner can cite no case specifically holding that reliance is a required showing for the application of SLUSA, nor can Petitioner identify a case where SLUSA preemption did not apply based on the absence of reliance. Petitioner relies on *Green v. Ameritrade*, 279 F.3d 590, 598 (8th Cir. 2002)[4] in

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[4] Petitioner labels his citation on page 22 of the Petition as "*Santa Fe*," perhaps leaving the reader with the impression that one of the Court's decisions supports his argument. But this language appears nowhere in the Court's *Santa Fe* decision. Rather, the quoted language and the Federal Reporter citation refer to the

support of his reliance argument. But *Green* was superseded by *Dabit*, and the Eighth Circuit recently repudiated its earlier interjection through *Green* of reliance into the SLUSA analysis, stating:

> When it rejected the *Blue Chip Stamps* limitation, the Supreme Court rejected wholesale the proposition that limitations on private Rule 10b-5 actions may be applied to limit the scope of SLUSA. To the extent that we have suggested, pre-*Dabit*, that the scope of SLUSA preemption is equal to that of the right to a private Rule 10b-5 action, *see Green*, 279 F.3d at 597-98, *the [Supreme] Court has corrected our course*.

Siepel, 526 F.3d at 1127 (emphasis added) Petitioner's reliance on Green is misplaced.

Petitioner also argues that this Court's decision in *Stoneridge* supports his contention that reliance is a part of the SLUSA analysis. *Stoneridge Inv. Partners, LLC v. Scientific-Atlanta, Inc.*, 552 U.S. 148, 159 (2008). But *Stoneridge* is not a SLUSA case. Petitioner knows as much and thus he had to resort to rewriting the Court's decision. He cited the following sentence from *Stoneridge*: "Reliance by the plaintiff upon the defendant's deceptive acts is an essential element of the § 10(b) private cause of action." Pet. 23. But in the Petition, he removes the phrase "the § 10(b) private cause of action." *Id.* The import of Petitioner's citation to *Stoneridge* cannot be overstated. No

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Eighth Circuit's decision in *Green*, a case overruled by *Dabit* and rejected in its own circuit.

SLUSA case supports his position, so he is forced to rely on (and misstate) a § 10(b) case; but *Dabit* specifically teaches that SLUSA preemption is not limited to those facts and claims that might be an actionable § 10(b) claim. Not only does the Petition fail to demonstrate any conflict among circuits, but Petitioner's legal arguments are unfounded.

In a twist on the same unsupportable theme, Petitioner further argues the Sixth Circuit broke with circuits that require a "causal connection" between the alleged fraud and the securities transaction. There is no circuit split on this issue for two reasons: (1) the Petitioner misstates the holdings of the cases he relies on and (2) the Opinion does not conflict with any of these decisions.

Petitioner attempts to rely on *Sofonia v. Principal Life Ins. Co.*, 465 F.3d 873, 877 (8th Cir. 2006). But the language Petitioner relies on from *Sofonia* is from the Eighth Circuit's earlier decision in *Green*; and as discussed above, the Eighth Circuit in 2008 specifically rejected its *Green* holding, recognizing that this Court corrected the course it erroneously had set in *Green*. *Siepel*, 526 F.3d at 1127. Petitioner's claim that there exists a conflict between the Sixth and Eighth Circuits on this issue is false. The Opinion below is entirely consistent with the Eighth Circuit's post-*Dabit* holdings in both *Kutten* and *Siepel*.

Similarly, the Sixth Circuit's Opinion does not conflict with either the Seventh or Second Circuits. In *Gavin v. AT&T Corp.*, 464 F.3d 634, 639-40 (7th Cir. 2006), the Seventh Circuit found that SLUSA did not preempt the plaintiffs' claims because the alleged fraud was not "in connection with" the securities

transaction when the alleged fraud occurred months after the securities transaction. This is far different from the present case, in which the District Court held, and the Sixth Circuit affirmed, that the fraud is so interconnected with a securities transaction that the wrongdoing "depend[s]" on the purchase of the Fifth Third funds. Opinion, Pet. App. 6a. And, in *Ring v. AXA Fin., Inc.*, 483 F.3d 95, 98 (2d Cir. 2007), as even Petitioner acknowledges, the issue was whether a particular insurance rider was a covered security, an issue wholly irrelevant to the present case where there is no dispute that the Fifth Third funds are covered securities. Indeed, the *Ring* court specifically stated it would not consider arguments concerning the "in connection with" factor. *Id.* ("Because we conclude that the [insurance rider] is not a 'covered security,' we need not address SLUSA's 'in connection with' requirement.").

The Petition also claims that the Opinion conflicts with the Ninth Circuit's decision in *Proctor v. Vishay Intertechnology, Inc.*, 584 F.3d 1208 (9th Cir. 2009). But *Proctor* is not remotely in conflict with the Sixth Circuit's Opinion. There was only one covered class action claim in *Proctor*, and the Ninth Circuit relied on the district court's opinion, finding that claim preempted by SLUSA. *Id.* at 1211-22 n.13. Moreover, despite Petitioner's attempts to demonstrate otherwise through questionable quotations from *Proctor*, the Ninth Circuit did not remotely establish a standard for SLUSA preemption that is any different than the *Dabit* standard relied upon by the Sixth Circuit. *Id.* at 1226 (class claim preempted "because [n]o covered class action [that alleges a misrepresentation of material fact in connection with the sale of a covered

security] based upon the . . . law of any State . . .may be maintained in . . . Federal court.").

Finally, Petitioner claims that the Opinion is in conflict with the Third Circuit's decision in *LaSala v. Bordier et Cie*, 519 F.3d 121 (3d Cir. 2008), which held that SLUSA preemption does not apply where the alleged misrepresentation is merely an extraneous detail. The Opinion does not conflict with *LaSala* because the misrepresentations alleged in the Amended Complaint here are not "extraneous details." Without the purchase of the Fifth Third mutual funds, there would be no claim at all.

Petitioner's arguments regarding *LaSala* hardly establish a compelling issue for the Court to review. As the Opinion below makes clear, the language from *LaSala* relied on by Petitioner is plainly *dicta*. *See* Opinion, Pet. App. 9a. So too is the Opinion's discussion of *LaSala* – the Sixth Circuit's decision does not rest on the fraudulent allegations in the Amended Complaint being immaterial, as it found the wrongdoing was dependent on both fraud and a securities transaction. In the Opinion, the Sixth Circuit squarely found that Petitioner's claims "depended" on his allegations of fraud and misrepresentation (even though he had removed those words from his Amended Complaint). Opinion, Pet. App. 6a. Therefore, the *holding* of the Opinion does not conflict in any way with *LaSala* and there is certainly no compelling issue for the Court to review.

2. There is No Circuit Split Regarding a Plaintiff's Right to Artfully Plead Around SLUSA

Petitioner claims that the Opinion is in conflict with those circuits that may allow plaintiffs to "plead around" SLUSA. Again, Petitioner's alleged circuit split is illusory.

Petitioner objects that the Sixth Circuit disregarded the specific words and labels utilized in the Amended Complaint and instead looked to the "substance" of the allegations. Opinion, Pet. App. 7a. The Sixth Circuit stated that to accept the labels and words chosen by a plaintiff "would reduce [SLUSA enforcement] to a formalistic search through the pages of the complaint for magic words – 'untrue statement,' 'material omission,' 'manipulative or deceptive device' – and nothing more." *Id.* The Sixth Circuit correctly concluded that a claimant "cannot avoid [SLUSA's] application through artful pleading that removes the covered words from the complaint but leaves in covered concepts." *Id.*

The Sixth Circuit did not break new ground in looking past the labels used by the a plaintiff to determine if the true substance of a complaint implicates SLUSA. Indeed, the notion that the plaintiff's labels and words are disregarded in pursuit of the gravamen of the plaintiff's complaint is a settled proposition throughout SLUSA jurisprudence. *See, e.g., Rowinski v. Salomon Smith Barney Inc.*, 398 F.3d 294, 300 (3d Cir. 2005); *Miller v. Nationwide Life Ins. Co.*, 391 F.3d 698, 702 (5th Cir. 2004); *Siepel*, 526 F.3d at 1127, *aff'g*, 239 F.R.D. 558, 570-72 (E.D. Mo. 2006); *Dudek v. Prudential Sec., Inc.*, 295 F.3d 875, 879 (8th

Cir. 2002); *Behlen v. Merrill Lynch*, 311 F.3d 1087, 1094 (11th Cir. 2002); *Felton v. Morgan Stanley Dean Witter & Co.*, 429 F. Supp. 2d 684, 692-93 (S.D.N.Y. 2006).

The cases cited by Petitioner do not compel an opposite conclusion. Certainly no case cited by Petitioner breaks with the Sixth Circuit's primary holding or otherwise supports the notion that a plaintiff can avoid preemption as long as the plaintiff avoids including in the complaint certain key words.

In support of the argument that a plaintiff can avoid SLUSA preemption through artful pleading, Petitioner cites *Beckett v. Mellon Investor Services, LLC*, No. 06-36044, 2009 U.S. App. LEXIS 10335 (9th Cir. May 14, 2009), an unpublished decision from the Ninth Circuit in which the court – after finding that the claims were preempted – allowed the plaintiff to amend the complaint to assert claims that might possibly be stated without including covered allegations. But *Beckett* was a Rule 15 decision permitting amendment of a complaint to plead claims that substantively were not implicated by SLUSA. *Beckett* does not stand for the proposition that a plaintiff can avoid SLUSA preemption via artful pleading where the substance of the claims are in fact implicated by SLUSA.

There is no conflict between the Ninth and Sixth Circuits on this issue of whether artful pleading is permitted. Indeed, the Ninth Circuit unequivocally has stated that artful pleading cannot defeat SLUSA preemption, in a case cited by Petitioner. *U.S. Mortgage, Inc. v. Saxton*, 494 F.3d 833, 842 (9th Cir. 2007). *Saxton* states that SLUSA "stands as an

express exception to the well-pleaded complaint rule, and its preemptive force cannot be circumvented by artful drafting." *Id.*

Petitioner claims that the Opinion's analysis of SLUSA allows any claim to be recast into one of fraud. This is simply not true. There are countless examples of allegations where, regardless of the labels in the complaint, fraud in connection with a security is not the gravamen of the claim. For example, when "after a lawful transaction had been consummated, a broker decided to steal the proceeds and did so." *Zandford*, 535 U.S. at 820.

Moreover, accepting Petitioner's argument regarding artful pleading means, effectively, a judicial repeal of SLUSA; no claim would ever again be preempted if avoiding SLUSA could be accomplished by simple avoidance of a few specific failing to include a few key words in a complaint. This could hardly be what Congress intended in targeting abuses of litigation concerning securities. *Dabit*, 547 U.S. at 81-82. And such an interpretation would fail to respect the broad construction of SLUSA already mandated by this Court. *Id.* at 85.

In any event, Petitioner does not and cannot establish any conflict among the circuits on the issue of whether SLUSA may be avoided by artful pleading.

3. This Case Does Not Present a Circuit Split on Whether SLUSA Preempts Individual Claims or Entire Actions

Petitioner also argues that the Sixth Circuit's dismissal of the entire action here conflicts with other circuits that examine complaints on a claim-by-claim basis.

Petitioner's argument on this issue is a red herring. The decisions of the District Court and the Sixth Circuit below did not turn on one specific claim being subject to preemption thus requiring dismissal of the entire action (including non-preempted claims). Rather, the two opinions below demonstrate that each claim was based on allegations that are preempted by SLUSA. *See* Opinion, Pet. App. 9a-11a; D. Ct. Order 19a-20a ("...it is inescapable that the key conduct underlying *all the claims* is the Bank's misrepresentations or omissions about, or deceptive scheme involving, the Bank's purchase of its proprietary mutual funds with fiduciary assets.") (emphasis added). Moreover, each cause of action incorporates all of the factual allegations. Opinion, Pet. App. 5a. Petitioner's incorporation of each fact into each cause of action makes a "claim by claim" review of the Amended Complaint impossible. *Anderson*, 521 F.3d at 1287 n.6; *Miller*, 391 F.3d 698 at 702.

Both the District Court and the Sixth Circuit were undoubtedly correct in holding that each claim in the Amended Complaint is preempted by SLUSA. Fifth Third extensively demonstrated why in its briefs below. In short, each claim relies on (sometimes veiled) allegations of misrepresentations, omissions,

present case where there is no dispute that each claim is a covered class action seeking damages. *See* Opinion, Pet. App. 4a-5a.

Because each claim in the Amended Complaint is subject to preemption, and each allegation is incorporated through the Amended Complaint, there is no split among the circuits to justify this Court's review of the Opinion. While Petitioner clearly objects to the Sixth Circuit's determination that each claim was preempted by SLUSA, the Sixth Circuit's application of settled legal principles to the specific allegations contained in the Amended Complaint is not a compelling or important legal issue requiring this Court's review or consideration.

C. The Sixth Circuit's Decision Does Not Interfere With State Trust Law

Petitioner's final argument is that the Sixth Circuit's Opinion impermissibly interferes with state trust law and eliminates a trust beneficiary's recourse against malfeasance by a trustee. This argument has been rejected by *Dabit* and numerous other courts.

As this Court, and the Sixth Circuit and District Court have recognized, it is important to recall that SLUSA does not preempt any right or cause of action held by a trust beneficiary:

> SLUSA does not actually preempt any state cause of action. It simply denies plaintiffs the right to use the class-action device to vindicate certain claims. The Act does not deny any individual plaintiff, or indeed any group of

> fewer than 50 plaintiffs, the right to enforce any state-law cause of action that may exist.

Dabit, 547 U.S. at 87. *See also* Opinion, Pet. App. 10a; D. Ct. Order, 17a-18a. Moreover, the Court has recognized that Congress "did not by any means act 'cavalierly'" in enacting SLUSA given the tailored exceptions (not applicable here) to SLUSA's preemptive scope. *Id.* Finally, the Court recognized in *Dabit* that concerns of federalism and the displacement of state law carry little merit with respect to SLUSA when federal law has been the "principal vehicle" for asserting fraud claims related to securities. *See also Saxton*, 494 F.3d at 843-45; Opinion, Pet. App. 10a ("SLUSA leaves open many avenues for claimants like Segal to vindicate their rights.").

Thus, this Court – in *Dabit* – already has considered and resolved Petitioner's exact concerns with respect to federalism and alleged infringement on state law. The Opinion applied the Court's established jurisprudence in holding that Petitioner's class claims were preempted; in doing so, the Sixth Circuit observed that even though his class action claims were preempted by SLUSA, Petitioner had numerous options remaining: (i) pursuing his individual claims; (ii) alleging claims on behalf of a group less than 50; (iii) proceeding pursuant to the requirements, *or* (iv) filing a claim without covered allegations. Opinion, Pet. App. 10a-11a. Under these circumstances, Petitioner again presents no compelling issue for review by this Court.

Conclusion

For all the foregoing reasons, the petition for writ of certiorari should be denied.

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IN THE

Supreme Court of the United States

DANIEL J. SEGAL, on behalf of himself, his minor children and all others similarly situated,
Petitioner,

v.

FIFTH THIRD BANK, N.A., *et al.*,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

PETITIONER'S REPLY TO RESPONDENTS' BRIEF IN OPPOSITION

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TABLE OF CONTENTS

TABLE OF AUTHORITIES ii

INTRODUCTION 1

ARGUMENT 3

I. The Original Complaint Is Irrelevant 3

II. The Petition in *Kutten* Was Premature 4

III. The Holding in *Green* Was Not Superseded by *Dabit's* Narrow Holding 9

CONCLUSION 11

TABLE OF AUTHORITIES

CASES

Beckett v. Mellon Investor Servs., LLC.,
No. 06-36044, 2009 U.S. App. LEXIS 10335
(9th Cir. May 14, 2009) 4

Blair v. Henry Filters, Inc.,
505 F.3d 517 (6th Cir. 2007) 3

Breakaway Solutions, Inc. v. Morgan Stanley & Co.,
No. 19522, 2004 Del. Ch. LEXIS 125
(Del. Ch. Aug. 27, 2004) 7

In re Charles Schwab Corp. Sec. Litig.,
257 F.R.D. 534 (N.D. Cal. 2009) 5, 6

Cheatham v. Kentucky Lottery Corp.,
No. 3:07-391, 2008 U.S. Dist. LEXIS 1391
(W.D. Ky. Jan. 4, 2008) 6

County of Riverside v. McLaughlin,
500 U.S. 44 (1991) 3

Dluhos v. Floating & Abandoned Vessel,
162 F.3d 63 (2d Cir. 1998).....3, 4

Fishback v. Memory Gardens Mgmt. Corp.,
No. 1:08-0216, 2008 U.S. Dist. LEXIS 38626
(S.D. Ind. May 12, 2008) 6

Gavin v. AT&T Corp.,
464 F.3d 634 (7th Cir. 2006) 10

Green v. Ameritrade,
279 F.3d 590 (8th Cir. 2002) 2, 9, 10

Kutten v. Bank of America,
530 F.3d 669 (8th Cir. 2008), *cert. denied*,
Arnold v. Bank of America, N.A.,
129 S. Ct. 598 (Nov. 17, 2008) 1, 2, 4, 5, 8, 9

LaSala v. Bank of Cyprus Pub. Co.,
510 F. Supp. 2d 246 (S.D.N.Y. 2007) 6, 7

LaSala v. Bordier Et Cie,
519 F.3d 121 (3d Cir. 2008) 10

LaSala v. Lloyds TSB Bank,
514 F. Supp. 2d 447 (S.D.N.Y. 2007) 7

In re Lord Abbett Mutual Funds Fee Litig.,
553 F.3d 248 (3d Cir. 2009) 4

Merrill Lynch, Pierce, Fenner & Smith v. Dabit,
547 U.S. 71 (2006) ..... *passim*

Kutten v. Bank of America,
No. 06-0937, 2007 U.S. Dist. LEXIS 63897
(E.D. Mo. Aug. 29, 2007) 9

Parry v. Mohawk Motors of Mich., Inc.,
236 F.3d 299 (6th Cir. 2000) 3

Paru v. Mutual of American Life Ins. Co.,
No. 04-6907, 2006 U.S. Dist. LEXIS 28125
(S.D.N.Y. May 10, 2006) 7

Proctor v. Vishay Intertechnology, Inc.,
584 F.3d 1208 (9th Cir. 2009) 4, 10

Ring v. AXA Fin., Inc.,
483 F.3d 95 (2d Cir. 2007) 10

Sante Fe Indus., Inc. v. Green,
430 U.S. 462 (1977) 9

Siepel v. Bank of America, N.A.,
239 F.R.D. 558 (E.D. Mo. 2006) 8

Siepel v. Bank of America, N.A.,
526 F.3d 1122 (8th Cir. 2008) 4, 8, 9

STATUTES AND RULES

Securities Act of 1933,
15 U.S.C. §77a *et seq.* 8

Securities Exchange Act of 1934,
15 U.S.C. §78a *et seq.* 8

Securities Litigation Uniform Standards Act of 1998,
15 U.S.C. §78bb(f)(1) ..... *passim*

Sup. Ct. R. 10 5

Sup. Ct. R. 15.6 1

Pursuant to Supreme Court Rule 15.6, Petitioner Daniel J. Segal, on behalf of himself, his minor children, Alex J. Segal and Graham H. Segal, and all others similarly situated, files this Reply to correct misstatements of fact and law and to address the new points raised in Respondents' Brief in Opposition.[1]

INTRODUCTION

Respondents' arguments in their Opposition do not undermine any of the compelling reasons Petitioner put forth for granting his Petition for a Writ of Certiorari ("Petition"), but instead reinforce Petitioner's argument that this case is an appropriate vehicle for this Court to address the exceptionally important and recurring question of the preclusive scope of the Securities Litigation Uniform Standards Act of 1998, 15 U.S.C. §78bb(f)(1) ("SLUSA") and resolve the ever-widening circuit split.

First, Respondents attempt to distract the Court from the critical question presented by improperly referring to the original complaint in this case "to reveal the true nature of the claims asserted." Opp. at 3 n.1. That complaint, however, was superseded by the Amended Class Action Complaint ("Amended Complaint") before any rulings below, and thus, has no relevance to any issue before this Court. Second, Respondents claim that the Petition should be denied simply because this Court declined to review a "similar" case eighteen months ago. *See* Opp. at 2, 13 (citing *Kutten v. Bank of America*, 530 F.3d 669 (8th

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[1] Respondents are Fifth Third Bank, N.A. and its corporate parent, Fifth Third Bancorp. Respondents' Brief will be referred to as the "Opposition" or "Opp."

Cir. 2008), *cert. denied, Arnold v. Bank of America, N.A.*, 129 S. Ct. 598 (Nov. 17, 2008)). However, not only are the facts of *Kutten* distinguishable from the instant case, but, given the then nascent development of the law among the circuits, the *Kutten* petition was also premature. Since denial of the *Kutten* petition, at least three circuits have issued additional conflicting decisions regarding the preclusive scope of SLUSA. Furthermore, Respondents' argument that the Eighth Circuit's decision in *Kutten* is consistent with the Sixth Circuit's decision in this case simply provides further support for granting the Petition here because the Eighth Circuit, in addition to the Sixth Circuit, is clearly split with several other circuits on the preclusive scope of SLUSA presented by this Petition.

Additionally, Respondents' contention that the holding in *Green v. Ameritrade*, 279 F.3d 590 (8th Cir. 2002), was superseded by *Merrill Lynch, Pierce, Fenner & Smith v. Dabit*, 547 U.S. 71 (2006), is misleading because only the part of the *Green* decision finding holders were not precluded under SLUSA was overruled by *Dabit*, and not the portion of the *Green* decision requiring reliance on a misrepresentation or omission for SLUSA preclusion. As Petitioner has made clear, in accord with *Green*, *Dabit* and decisions interpreting *Dabit*, have held that for the claim to be precluded by SLUSA, a plaintiff must still be induced to some action or inaction by a misrepresentation or omission.

Therefore, Respondents' arguments and citations to new authority only strengthen Petitioner's position that in the four years since *Dabit*, based on inconsistent interpretations of SLUSA and *Dabit*,

courts of appeals and district courts have widely divided on whether SLUSA precludes traditional state law claims that are not premised on any misrepresentation, omission, or other deceptive conduct. Due to the varying irreconcilable approaches by the courts of appeals used in analyzing the preclusive effect of SLUSA, which has led to confusion and disarray, this Court must intervene to protect Congress' express goal with SLUSA of applying uniform standards to deceptions in connection with transactions in securities.

ARGUMENT

I. The Original Complaint Is Irrelevant

In the Petition, Petitioner began the "Statement of the Case" by describing the allegations in the Amended Complaint, the only pleading that is relevant to the decisions in the Sixth Circuit and the District Court. Respondents, however, improperly claim that "Petitioner seeks to downplay or hide the original complaint filed in this case," Opp. at 3 n.1, ignoring the settled rule that "[w]hen plaintiff files [an] amended complaint, [the] new complaint supersedes all previous complaints and controls [the] case from that point forward." *Parry v. Mohawk Motors of Mich., Inc.*, 236 F.3d 299, 306 (6th Cir. 2000) (citation omitted); *see also County of Riverside v. McLaughlin*, 500 U.S. 44, 48 (1991) (stating that the second amended complaint was the operative pleading); *Blair v. Henry Filters, Inc.*, 505 F.3d 517, 522 (6th Cir. 2007) (finding the operative complaint to be the amended pleading); *Dluhos v. Floating & Abandoned Vessel*, 162 F.3d 63, 68 (2d Cir. 1998) ("[I]t is well established that an amended complaint ordinarily supersedes the original, and renders it of

no legal effect.") (internal citations and quotations omitted). Therefore, Respondents' suggestion that Petitioner attempts to "downplay or hide" the original complaint is disingenuous, as the original complaint is completely immaterial to any of the issues before this Court or the lower courts.

II. The Petition in *Kutten* Was Premature

Respondents argue that the Petition should be denied because this Court found "no compelling reason to review the Eighth Circuit's decision in *Kutten*," Opp. at 13, and that *Kutten* and the Eight Circuit's later decision in *Siepel v. Bank of America, N.A.*, 526 F.3d 1122 (8th Cir. 2008), involved claims "nearly identical" to those of Petitioner here.

However, the petition in *Kutten* was premature because the split in the circuits regarding the scope of SLUSA preclusion had not yet sufficiently manifested itself. Since this Court denied the petition in *Kutten*, at least three additional circuits – the Third, Sixth, and Ninth (as well as numerous district courts) – have issued divergent decisions on SLUSA's preclusive scope, further widening the split. *See* App. 1a-11a;[2] *Beckett v. Mellon Investor Servs., LLC.*, No. 06-36044, 2009 U.S. App. LEXIS 10335 (9th Cir. May 14, 2009); *In re Lord Abbett Mutual Funds Fee Litig.*, 553 F.3d 248 (3d Cir. 2009); *Proctor v. Vishay Intertechnology, Inc.*, 584 F.3d 1208 (9th Cir. 2009). Thus, Respondents' contention that "[o]ther than cases adding to the list of courts that have found such claims preempted under SLUSA, no significant legal developments have taken place since the Court

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[2] References to the Appendix submitted with the Petition will be to "App."

denied the petition for certiorari in *Kutten*," Opp. at 13, is simply incorrect.

Further, Respondents' citation to two Eighth Circuit cases that are consistent with each other – *Kutten* and *Siepel* – and several district court cases is inconsequential, as this Court is concerned with splits between the circuits. *See* Sup. Ct. R. 10 ("The following . . . indicate the character of the reasons the Court considers: (a) a United States court of appeals has entered a decision in conflict with the decision of another United States court of appeals on the same important matter . . . ."). Moreover, all of Respondents' cited authorities are inapposite because, unlike the facts before the Sixth Circuit, they all involve purchasers, sellers, or holders of securities who were induced to purchase, sell, or hold such securities by defendants' misstatements and/or omissions.

Nevertheless, Respondents' citations to the district court decisions to support their position that the Sixth Circuit applied "settled precedent with respect to SLUSA," Opp. at 12, actually furthers Petitioner's argument that the Petition should be granted. The district court decisions demonstrate that the lower courts are in disarray over the proper analysis under SLUSA, which is to be expected, given the varying approaches of the circuit courts on similar sets of facts. That lack of uniformity in the application of SLUSA is evidenced by the fact that for every case that Respondents can cite, Petitioner can cite a case with similar facts with a contradictory result. *See, e.g.*, *In re Charles Schwab Corp. Sec. Litig.*, 257 F.R.D. 534, 551 (N.D. Cal. 2009) (denying dismissal under SLUSA, holding that,

although the complaint contained allegations of misrepresentations, the state law claims were not "in substance predicated on misrepresentations or omissions" because they were not premised on defendant's failure to disclose the fund's change in concentration policy, but on the change violating its contractual and fiduciary duties to plaintiff); *Fishback v. Memory Gardens Mgmt. Corp.*, No. 1:08-0216, 2008 U.S. Dist. LEXIS 38626, at *2-3 (S.D. Ind. May 12, 2008) (finding SLUSA did not preempt the state law claims, because "[t]he only alleged transactions in 'covered securities' were not deceptive and were merely incidental to the scheme. . . . Extending SLUSA preemption to plaintiff's claims would lose sight of the language and purpose of SLUSA. Extending preemption to these claims also would go a long way toward allowing SLUSA to swallow a broad swath of state law class actions well beyond the scope of federal and state securities laws, while denying victims any effective remedy at all for serious wrongs. That is not what Congress legislated or intended."); *Cheatham v. Kentucky Lottery Corp.*, No. 3:07-391, 2008 U.S. Dist. LEXIS 1391, at *8 (W.D. Ky. Jan. 4, 2008) ("KLC's alleged misrepresentations and omissions had nothing to do with the trading of any particular security and any misrepresentation or omission by KLC did not affect the value of the KLC Plan, but merely involved the relationship between KLC and its employees. . . . Although SLUSA's scope is broad, it is not unlimited. Accordingly, the court does not find SLUSA's 'in connection' requirement to be met in this case.") (citations omitted); *LaSala v. Bank of Cyprus Pub. Co.*, 510 F. Supp. 2d 246, 272-73 (S.D.N.Y. 2007) (finding that SLUSA was not meant to preempt every

kind of fraud that has something to do with securities, and "[i]f merely making allegations of fraud somewhere in the complaint were sufficient to bring the case within the reach of SLUSA, a class action complaint for commission of an environmental tort, that also alleged that the company fraudulently altered its books and thereby deceived shareholders, would be preempted, even if the claim against the defendant had nothing to do with securities fraud"); *LaSala v. Lloyds TSB Bank*, 514 F. Supp. 2d 447, 479 (S.D.N.Y. 2007) ("The allegations concerning defendant's conduct . . . are simply too far removed from a securities transaction to satisfy SLUSA's 'in connection with' requirement."); *Paru v. Mutual of American Life Ins. Co.*, No. 04-6907, 2006 U.S. Dist. LEXIS 28125, at *13-14 (S.D.N.Y. May 10, 2006) (finding that the complaint "does not contain a single allegation of a misrepresentation or omission of material fact made by defendant which could trigger SLUSA preemption" and that "[e]ven looking beyond the face of the Complaint to the substance of plaintiff's allegations, it is clear that plaintiff's claim is not based, either explicitly or implicitly, on any misstatements or omissions," and [t]herefore, plaintiff's state law breach of fiduciary duty claim is not preempted by SLUSA"); *Breakaway Solutions, Inc. v. Morgan Stanley & Co.*, No. 19522, 2004 Del. Ch. LEXIS 125, at *39 (Del. Ch. Aug. 27, 2004) ("Because Breakaway has not alleged 'misrepresentation or omission of a material fact' or the use of a 'manipulative or deceptive device,' the state law claims asserted in this action have not been preempted by SLUSA, and the Defendants are not entitled to dismissal under SLUSA.").

Moreover, the facts of *Siepel* and *Kutten* are distinguishable from the facts here. The complaints in those cases expressly alleged fraud and were predicated on the trustees' alleged deceptions of beneficiaries. In *Siepel*, in addition to their breach of fiduciary duty claims, plaintiffs alleged that defendants violated their state law duty of candor, *see Siepel v. Bank of America, N.A.*, 239 F.R.D. 558, 567 (E.D. Mo. 2006), and the federal securities laws under the Securities Exchange Act of 1934, 15 U.S.C. §78a *et seq.* and the Securities Act of 1933, 15 U.S.C. §77a *et seq.* *Siepel*, 526 F.3d at 1124. Indeed, the *Siepel* plaintiffs conceded that their complaint contained allegations of misrepresentations and omissions by the bank underpinning their claims. *See id.* at 1126.

In *Kutten*, 530 F.3d 669, the same Eighth Circuit found that the case was indistinguishable from *Siepel*, stating that:

> We agree with the district court that the Appellants failed to distinguish their case from *Siepel*. Whatever the distinction between "deceiving" and "failing to be honest," or between "omitting a material fact" and "failing to disclose," it does not bear on whether SLUSA preempts the claim containing those allegations. In this case, the district court correctly found that without allegations of deceptive and misleading conduct, the Appellants' complaint was empty of any non-preempted class action claims.

See id. at 671.

Further, the complaint in *Kutten* specifically alleged that defendants provided false and misleading notices about fees and expenses and other deceptive information about the investments in the fiduciary accounts, *see* No. 06-0937, 2007 U.S. Dist. LEXIS 63897, at *3-4 (E.D. Mo. Aug. 29, 2007), and that defendants did not disclose certain material facts. *See id.* at *5. Indeed, the *Kutten* plaintiffs conceded that "the breach of the fiduciary duty to disclose diversion of trust assets or facts relevant to whether the bank has committed multiple breaches of duty" was the issue in the case and made clear that they were "challeng[ing] [the] failure to disclose." *Id.* at *11-12 (internal citation omitted).

Therefore, neither *Kutten* nor *Siepel* squarely address the distinction between claims premised on misrepresentations and omissions, as in those cases, and claims that are not premised on any deceptive misconduct, like those of Petitioner here.

III. The Holding in *Green* Was Not Superseded by *Dabit's* Narrow Holding

In response to Petitioner's citation to *Green*, 279 F.3d 590,[3] in support of the requirement that detrimental reliance on a misrepresentation or

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[3] Respondents seek to suggest a sinister motive behind Petitioner's unintentional short hand use of the case name *Green*, when they intended to cite to the Eighth Circuit's *Green v. Ameritrade*, 279 F.3d 590 (8th Cir. 2002), rather than *Sante Fe Indus., Inc. v. Green*, 430 U.S. 462 (1977). *See* Opp. at 15 n.4. Petitioner did, however, provide the correct Federal Reporter citation to his citation to the Eighth Circuit's *Green* opinion, which demonstrates no deception was intended. Petitioner apologizes for any confusion this may have engendered.

omission must be alleged for a claim to be precluded by SLUSA, Respondents incorrectly argue that "*Green* was superseded by *Dabit*." *See* Opp. at 16-17. However, as Petitioner pointed out, *Dabit* only overruled the portion of the holding in *Green* dealing with excluding holders from the scope of SLUSA, the primary issue addressed by *Dabit*. The remainder of the *Green* decision is still valid and has been relied on for its interpretation of SLUSA's requirements. *See Gavin v. AT&T Corp.*, 464 F.3d 634, 639 (7th Cir. 2006). In fact, even in *Dabit*, "the brokers allegedly ***relied*** on the analysts' reports in advising their investor clients and in deciding whether or not to sell their own holdings; and the clients and brokers both continued to hold their stocks long beyond the point when, had the truth been known, they would have sold." 547 U.S. at 75 (emphasis added). Moreover, Petitioner has cited post-*Dabit* circuit decisions that have held that for SLUSA to preclude the claim, the plaintiff must still be induced by a misrepresentation or omission to purchase, sell, or hold a security. *See Proctor*, 584 F.3d at 1221-23; *LaSala v. Bordier Et Cie*, 519 F.3d 121, 128-29, 141 (3d Cir. 2008); *Ring v. AXA Fin., Inc.*, 483 F.3d 95, 101 (2d Cir. 2007); *Gavin*, 464 F.3d at 639-40; *Sofonia v. Principal Life Ins. Co.*, 465 F.3d 873, 877, 879-80 (8th Cir. 2006).[4]

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[4] Respondents question Petitioner's reliance on *Sofonia*. Opp. at 17. However, even without its citation to *Green*, 279 F.3d 590, the Eighth Circuit in *Sofonia* still held that the "in connection with" element was only met because "[t]he crux of Sofonia's complaint is that Appellees made false statements in the PIB to ***induce*** policyholders to approve the demutualization and that he and the other putative class members did not receive fair value when they exchanged their membership interests for shares of PFG common stock. . . . Any fraudulent statements allegedly made by Appellees to ***persuade***

Therefore, contrary to Respondents' assertion, there is a conflict among the circuits on whether detrimental reliance on misrepresentations or omissions is necessary for SLUSA preclusion, as well as on the other fundamental issues discussed fully in the Petition. These issues must be resolved by this Court to establish uniform standards and ensure that the fate of the claims does not depend on the jurisdiction where they are brought.

CONCLUSION

For these reasons and the reasons set forth in the Petition, a writ of *certiorari* should be granted.

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Respectfully submitted,

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policyholders to approve this transaction most assuredly were made 'in connection with' the policyholders' purchase of PFG common stock. The District Court did not err in reaching this conclusion." *See Sofonia*, 465 F.3d at 879-80 (emphasis added).